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Emerging Urban Districts in Washington and Boston

By Leslie Braunstein
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Everyone's talking about "what's next" in terms of emerging urban neighborhoods, where property values can surge very rapidly. But why do some districts emerge seemingly out of nowhere? How can developers and investors find the next one?

A panel at the ULI Spring Meeting in Philadelphia provided insights into this issue, primarily by examining the trajectory of two successful emerging districts: Kendall Square in Cambridge, Massachusetts, and Union Market in Washington, D.C.

Christopher Leinberger, president of LOCUS and a nonresident senior fellow of the Brookings Institution, moderated. He initiated the session by presenting some of the latest research on walkable urban places, dubbed walkUPs. "Walkable urban is the future, driven by the 'creative class,' and we have no choice but to retool," he stated. "It started in the mid-1990s but has picked up during the last two real estate cycles, driven by the creative class, which is demanding a walkable urban environment in which to live, work, and play."

WalkUPs represent the second and third stages of the American dream, Leinberger said. "The built economy is a reflection of the economy, which has largely transitioned from an industrial to a knowledge economy; the next version is the experience economy."

A recent study by Brookings and the George Washington University School of Business examined 5.5 billion square feet (5.1 million sq m) of space in the Boston area and determined that over 90 percent of the space is in drivable subdivisions, 4.4 percent is in walkable neighborhoods, and only 1.2 percent is in established and emerging walkable urban places. Some 80 percent of future development will occur on just 5.6 percent of the land mass. Not surprisingly, property valuation is highest in walkUPs, ranging from a 41 percent premium for retail space to a 134 percent premium in the office sector.

WalkUPs tend to attract more "creatives," Leinberger continued. The six most walkable metros in the United States have a 41 percent higher gross domestic product (GDP) per capita than the ten least walkable metros—equal to the GDP gap between Germany and Greece. WalkUPs earn six to 12 times the tax revenue per acre than do suburban subdivisions. But higher demand and higher prices are creating a growing affordable housing challenge, he pointed out. "We must address this challenge; we can't simply pass it off to the public sector," he said.

Successful emerging walkUPs often are the result of thoughtful planning by a single developer or a consortium led by one. Peter Calkins of Forest City Enterprises Inc. has been a major force behind Kendall Square in Cambridge, Massachusetts, located on 27 acres (11 ha) adjacent to the Massachusetts Institute of Technology (MIT) on MIT-owned land. "This was old industrial land, with closed factories such as Simplex, which started out making wire for hoop skirts," Calkins recalled. "We jumped into this project due to its proximity to MIT and transit; we knew that if we built the right product with the right partners, it would work."

Forest City worked with MIT and the city of Cambridge over a five-year period to create a flexible master plan and rezone the property. Today, Kendall Square comprises 2.5 million square feet (232,258 sq m) of mixed-use space. Office space totaling 1.5 million square feet (139,355 sq m) has attracted life sciences and biotechnology firms; more than 1,000 people live in the district, including residences in a rehabilitated Fig Newton cookie factory; a vibrant atmosphere is provided by parks, public open space, a hotel, restaurants, child care, and retail services, including a grocery store.

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Another exciting urban district is emerging in a long-neglected sector of northeast Washington, D.C., spurred by retail developer EDENS. As explained by EDENS CEO Jodie McLean, the company saw great potential in the gritty 45-acre (18 ha) site that has housed wholesale food vendors since 1931. The site is just 1.5 miles (2.4 km) from the U.S. Capitol, adjacent to the rapidly growing NoMa district, with a nearby Metrorail stop and 17 million square feet (1.6 million sq m) of development, with another 20 million square feet (1.9 million sq m) in the pipeline, but few retail amenities.

EDENS started investing in the area in 2007, when some 90 separate property owners were in place. In 2009, the city council created a small area plan allowing for 8 million square feet (743,000 sq m) of development. Current plans call for about 1.2 million square feet (111,000 sq m) of retail space, 4.8 million square feet (446,000 sq m) of residential space, and about 2 million square feet (186,000 sq m) of office, hotel, and warehouse space. EDENS is developing half the 8 million square feet (743,000 sq m).

EDENS jump-started this transition four years ago by opening the Market at Union Market, with some 40 local food vendors under one roof, including two from the original market. “At 14,000 square feet [1,300 sq m], it’s small, but we had to do something that would bring people here, demonstrating the entrepreneurial creative community that we have in Washington, and above all be collective, innovative, unique, and authentic,” said McLean. As full-scale development gets underway, the Market now averages 15,000 visitors per week, has generated annual sales of $20 million, and has hosted more than 400 events.

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