

Essay:

The Shape of Downtown

CHRISTOPHER B. LEINBERGER

What America's downtowns need is walkable urbanity.



GETTY

There has been a major revitalization of American downtowns, with about two-thirds of them showing signs of a turnaround in the past 15 years. The fact that many downtowns have begun revitalization—despite zoning laws that mandate suburban sprawl and the hard time the real estate and financial industries have understanding how to build and finance such efforts—is a testament to the level of emotional commitment and pent-up consumer demand that exist for bringing back downtowns.

The most important feature of a viable downtown is walkable urbanity, the quality that gives a downtown a competitive edge over suburban locales. This same quality is the reason American tourists flock to European cities. When the travel section of a Sunday newspaper highlights a city destination, it does not focus on the could-be-anywhere suburbs, but rather on the things that make the city unique—in Denver, for example, the downtown and its museums, the restaurants, the 16th Street mall, Lower Downtown (LoDo), the stadiums, and the performing arts center. It is why faux downtown experiences like Disneyland and Walt Disney World and their Main Street attractions can charge more than \$50 per person to experience walkable urbanity.

Just what is walkable urbanity? Since the rise of cities some 8,000 years ago, humans have tended to be willing to walk about 1,500 feet before pursuing an alternative means of transportation—a horse, a trolley, a bicycle, or a car. This distance translates into the equivalent of the amount of walking required to traverse about 160 acres—roughly the size of a superregional mall, including its parking lot. That is also about the size, plus or minus 25 percent, of lower Manhattan, downtown Albuquerque, the Society Hill section of Philadelphia, the financial district of San Francisco, downtown Los Angeles, downtown Atlanta, and most other major downtowns in the country.

If the upper limit of a walkable area is 160 acres, what would make anyone want to walk it? Certainly no one is inspired to walk the distance from one end of a superregional mall parking lot to the other. The reason people will consider walking that distance is to engage in an interesting streetscape experience and to people-watch along the way. It is the sights and sounds of the city that entice pedestrians to walk the many blocks of a downtown. It may even make them forget they are unintentionally getting some exercise.



TIMOTHY HURLEY/FILS (DENVER PMA XKS)

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STREETSCAPE

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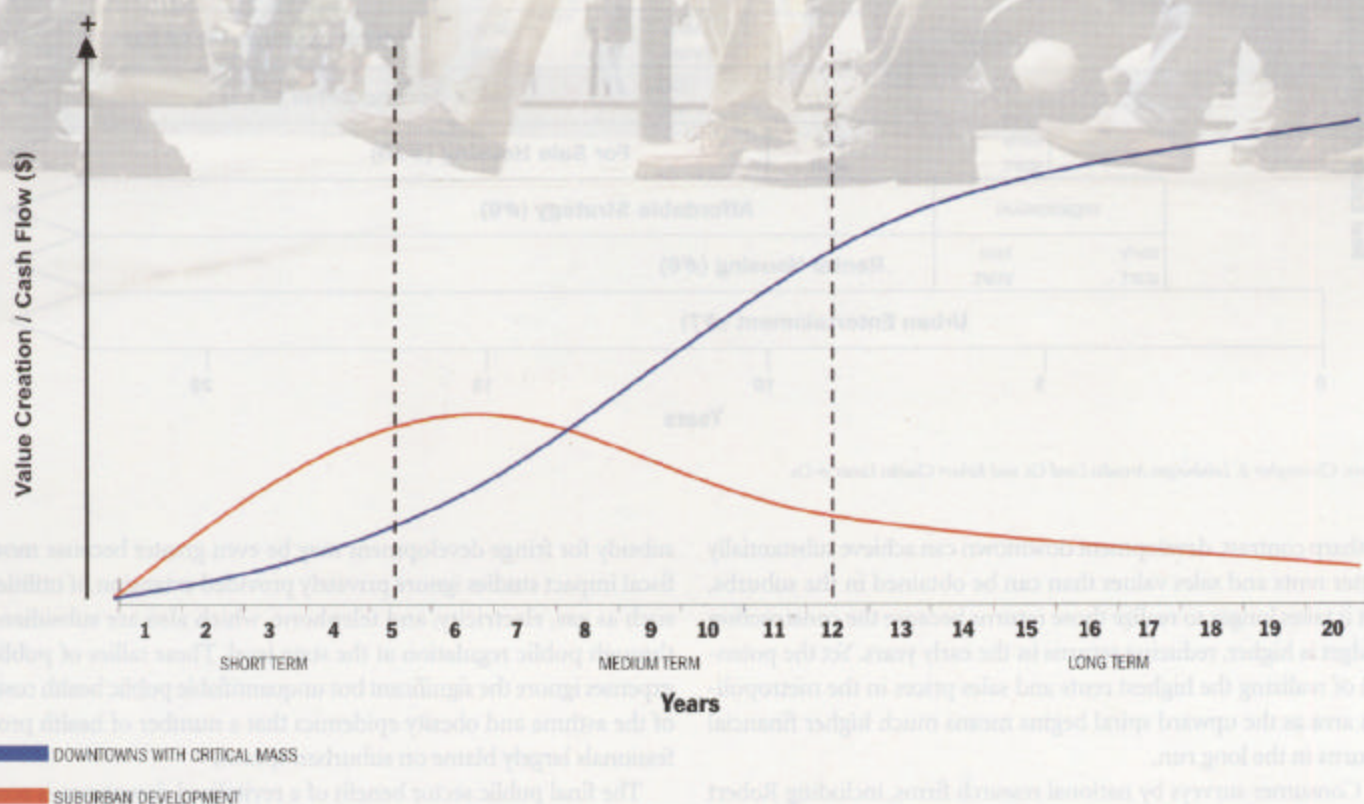
Walking in a downtown streetscape environment can be an adventure, an experience, a movable negotiating session, a stroll, a romantic walk, a time to collect one's thoughts on the way to a meeting, or—one of the best things about walking downtown—an opportunity for an unexpected street encounter with an acquaintance. Business deals have even been known to be triggered by a chance meeting on a downtown street. The experience of walking downtown can be entirely different depending on the time of day, the day of the week, or the season of the year—even if one is walking along a familiar path. A person can have a different experience nearly every time he or she takes to the streets.

The downtown walking experience is vastly different from the mind-numbing experience one gets in a climate- and light-controlled mall, especially after walking across one of the least pleasant modern landscapes: the asphalt parking lot.

Creation of the "urbanity" part of walkable urbanity requires a complex mix of uses, including retail boutiques, hotels, grocery stores, housing, offices, and artists' studios, all brought close to the sidewalk, with different styles of well-crafted architecture to experience along the way—architecture that is meant to be experienced up close.

This is in sharp contrast with the suburbs, where one passes big-box retailers and workplaces at 45 to 65 miles per hour in a car. Buildings are set back more than 100 feet from the street or freeway and the architecture, for the most part, is only meant to catch one's eye across a parking lot in the second or two it takes to drive by. This kind of "drive-by" architecture functions more like a temporary billboard than some-

FIGURE 1: FINANCIAL CHARACTERISTICS OF DOWNTOWNS WITH CRITICAL MASS VERSUS SUBURBAN DEVELOPMENT



Source: Christopher B. Leinberger, *Arundia Land Co.* and Robert Charles Lesser & Co.

thing built for the ages. When it is time to renovate, these buildings generally are scrapped, or just left to decay. No one feels an emotional attachment to an abandoned big box.

The challenge of jump-starting a mix of uses at a pedestrian scale is to create a critical mass as quickly as possible, before the initial revitalization efforts stall for lack of support. Critical mass is created when there is enough activity to occupy a visitor for four to six hours and when enough of life's daily needs can be met to give people a reason to locate their major asset—their home—downtown. From an investor's perspective, critical mass is achieved when rents and sales prices justify new construction or renovation. Critical mass also is achieved at the point where the redevelopment process is unstoppable and irreversible.

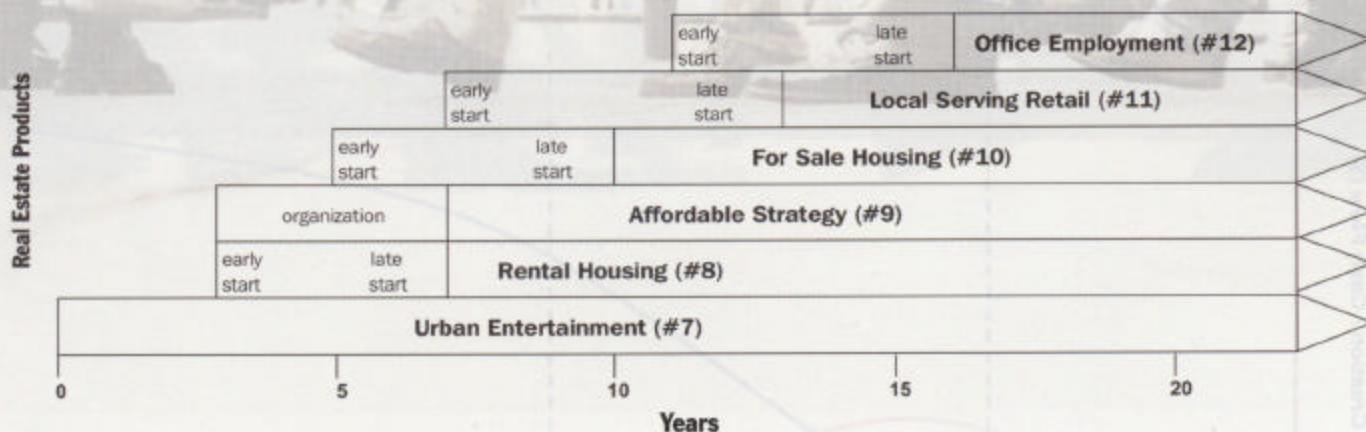
Once a downtown achieves critical mass, an upward spiral of value creation starts and a "buzz" is created. The number of people on the streets increases and with it the perception of safety. More activity attracts more people, which increases rents and land and property values, generally to the highest level in the metropolitan area, which creates more business opportunities and leads to more activity and people on the street, and so on. In a viable downtown, more is better.

This stands in stark contrast with suburban development, where more is worse. The lure of the suburbs revolves around lawns, open space, and the freedom to travel by car. More activity, driven by a geometric increase in automobile trips, means more congestion, pollu-

tion, and inconvenience, and the destruction of the very features that attracted people in the first place. This drives the continuous sprawl that makes yesterday's edge cities obsolete as demand and development march outward to what Robert Lang, director of the Metropolitan Institute at Virginia Tech, calls "edgeless cities," a term he used as the title of his 2003 book. The combination of indistinctive architecture and the temporary nature of the suburban dream leads to an inevitable downward spiral. And while the majority of the market wants to live in suburbia, more suburban development nearly guarantees its decline as demand is pushed continuously outward to the ever-expanding fringe. The evolution of former edge cities into complex, walkable urbanist communities is their major hope of avoiding being replaced by fringe development. (See "Building for the Long Term," page 95, November/December 2003.)

The financial value created in a downtown that has achieved critical mass is contrasted with that of conventional suburban development in Figure 1. Suburban development, based on standard national formulas and car-friendly access and parking, performs well financially in the short term, but, because it is built cheaply to help drive the required early financial returns, its performance peaks in years seven to ten. Driving past such development in a car, consumers will not notice the inexpensive construction: most new things look good, regardless of their quality. The investor is not willing to commit to a specific site for a long-term investment because sprawl may take demand farther out to the fringe in seven to ten years anyway.

FIGURE 2: PROGRESSIVE INTRODUCTION OF REAL ESTATE PRODUCTS IN A REVIVING DOWNTOWN



Source: Christopher B. Leinberger; Arcadia Land Co. and Robert Charles Lesser & Co.

In sharp contrast, development downtown can achieve substantially better rents and sales values than can be obtained in the suburbs, but it takes longer to realize those returns because the construction budget is higher, reducing returns in the early years. Yet the potential of realizing the highest rents and sales prices in the metropolitan area as the upward spiral begins means much higher financial returns in the long run.

Consumer surveys by national research firms, including Robert Charles Lesser & Co., Zimmerman-Volk, and Real Estate Research Co., among others, have found pent-up demand for walkable urbanity. According to their findings, 30 to 50 percent of all households in the metropolitan areas surveyed want walkable urbanity. However, the supply is 5 percent or less in most metropolitan areas. In addition, visual preference surveys, pioneered by Anton C. Nelessen of Rutgers University, have shown overwhelming consumer support for walkable urbanity over sprawling, car-dominated development.

The public sector also realizes untold governmental fiscal benefits from a revitalized downtown, beginning with the increased taxes that result. Also, experience has shown that major municipal facilities, such as convention centers, stadiums, arenas, and performing arts centers, are more successful when located downtown, attracting anywhere from 20 to 90 percent higher attendance than suburban venues. Since 1990, nearly 90 percent of all such facilities have been located downtown for this reason, as well as the fact that there generally is no need to create extra parking for these facilities because they can share space in existing office parking structures. In addition, transit tends to be focused downtown, so another existing government-provided asset is put to better use.

The indirect reason downtown revitalization is fiscally prudent for local governments is that most fiscal impact studies show that suburban development is heavily subsidized. The cost of extending roads, sewers, and water lines, and providing services such as schools, and police and fire protection is about 1.5 to two times what the homebuyer or commercial development is charged through taxes, the rest being made up by taxpayers in general. In fact, the public

subsidy for fringe development may be even greater because most fiscal impact studies ignore privately provided extension of utilities such as gas, electricity, and telephone, which also are subsidized through public regulation at the state level. These tallies of public expenses ignore the significant but unquantifiable public health costs of the asthma and obesity epidemics that a number of health professionals largely blame on suburban sprawl.

The final public sector benefit of a revitalized downtown is economic development. With so much pent-up demand for walkable urbanity and with so many metropolitan areas in short supply of neighborhoods exhibiting this feature, it is more difficult to recruit or retain the creative class of workers that economists such as Richard Florida have shown to be crucial to city growth. When the strategy for downtown Albuquerque was being crafted, for example, Dan Hartley, a senior executive with Sandia National Laboratory, spent hours volunteering in the process even though the laboratory, which employs 5,000 scientists, engineers, and professional managers, is five miles from downtown. When asked why he spent so much time on the downtown strategy, he replied, "If Albuquerque does not have a vibrant, hip downtown, I do not have a chance of recruiting or retaining the 20-something software engineers that are the life's blood of the laboratory." If 30 to 50 percent of the market cannot get walkable urbanity, why would they come to Albuquerque when Austin, Boston, and Seattle beckon? A purely suburban, car-dominated metropolitan area is at a competitive disadvantage for economic growth.

Drawn from experience in over 50 American downtowns, 12 progressive elements, or steps, have come to the fore as being essential to the revitalization of a downtown. The first six build the foundation required to kick off the revitalization process; the next six are the means by which a viable private real estate sector can be reintroduced to a downtown that may not have seen a private sector building permit issued in years.

■ Step 1: Memory and vision. Before a depressed downtown can be revitalized, the intention to do so must exist. To determine whether the intention is present in the community, one must understand the

most important asset a downtown revitalization can have—memory, and the emotion it unleashes. Emotion is the reason people generally overimprove their homes, which is where 50 percent of all real estate value resides. Emotion is why people create grand civic structures, such as city halls, performance halls, arenas, and, especially over the past generation, museums. Emotion is the reason historic buildings are renovated even if it would cost less to tear down the older structure and build a new one. The memory of what downtown used to be, especially if that memory resides in the people who are now civic leaders, is a powerful force in revitalizing downtown. Determining whether emotion and memory associated with downtown will be mobilized is the first step in redeveloping it.

■ **Step 2: Strategic planning and management.** Downtown is generally one of the largest mixed-use developments in the metropolitan area, if not the largest. Even if it is little more than a concentration of government, professional services, and financial institutions, downtown taken as a whole is a huge mixed-use district.

based on market and consumer research and driven by market demand, not by planners' theories or political pressure.

■ **Step 3: Determining the appropriate public sector roles.** Successful downtown revitalizations generally are carried out by *private/public* partnerships, not *public/private* partnerships, as usually is thought to be the case. While the public sector may initiate the strategy process, it must quickly be led by the private sector because private dollars will predominate during the revitalization effort, dwarfing the public investment in the range of ten or 15 to 1. The public sector does many things well, but leading real estate development and a lengthy downtown turnaround is not something a city is equipped to do. It is crucial to determine in the strategy process the appropriate public sector roles and to have the private sector take the lead.

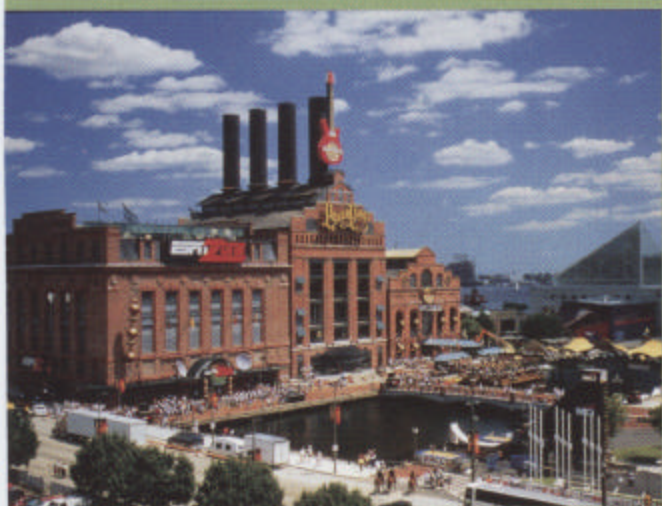
■ **Step 4: Making the right thing easy.** Zoning and building codes of the past 50 years generally outlaw elements necessary for walkable urbanity. Suburban parking space regulations, formula-driven codes

that encourage the tearing down of historic buildings, and zoning that prohibits the mixing of uses all conspire to keep downtowns from being revitalized. For example, if the downtown area around the 400-year-old plaza in Santa Fe, New Mexico—one of the most walkable urbane cities in the country—burned down, it would legally have to be rebuilt as strip commercial development, according to zoning codes on the books. If such a disaster happened, the codes would probably be modified, but it would have to be an exception to the law, which demands suburban strip development. Rather than reform existing zoning codes, it generally

is best to throw them out and start from scratch, putting in place a form-based code that will make it easy to do the right thing. A form-based code focuses on how the buildings address the street and sidewalks, leaving decisions to the market about the types of uses, the amount of parking provided on site, and architecture.

■ **Step 5: Business improvement districts and other nonprofits.** One way the private/public process is implemented is through nonprofit groups, particularly a business improvement district (BID). There are more than 1,000 BIDs in the country—evidence that it is now well understood that establishing a BID is crucial to the suc-

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THE DOWNTOWN COMPANY POWER PLANT (BALTIMORE)

However, there is rarely a strategic plan for downtown or any management in place to implement the strategy. The typical regional mall, a much smaller and far simpler development than virtually any downtown, has a comprehensive strategy for its positioning and 24/7 management.

Having a strategy and a management plan for downtown is critical, especially when one considers that achieving walkable urbanity is a complex art. Only by developing a strategy with an implementation plan and organizations to carry it out can a city achieve walkable urbanity in a reasonable time frame. The strategy needs to be

cessful revitalization of a downtown. In essence, the BID is the quasi government for the downtown, the "keeper of the flame" of the downtown strategy, and the provider of services the city government cannot provide.

A BID is funded by property owners who voluntarily increase their property taxes by 5 to 15 percent. Because the tax is collected through normal city channels, the city council and mayor are always tempted to take control of those funds—a dangerous situation that needs to be continually guarded against. It is important that the legislation establishing BIDs be written to mandate control of the funds by the BID's board of directors.

■ **Step 6: Creating a catalytic development company.** Most conventional suburban developers do not have the experience, investors, bankers, or inclination to come downtown. They perceive the market risk as being too high and do not relish being pioneers. Downtowns have overcome this problem by establishing a catalytic developer—an organization that develops the initial projects that consumer and market research shows have potential market demand but that also involve above-market risk. It is the equivalent of pushing the fast-forward button, with the catalytic development firm demonstrating to the rest of the development community and investors that downtown development can make economic sense.

The roles a catalytic development company can play include the following:

- assembling land;
- developing land;
- joint venturing with developers on land and buildings they control;
- bridging the gap between conventional financing and what is required to make the project happen; and
- engaging in complete building development.

In the early years of the revitalization process, the catalytic development firm likely will have to engage in complete building development. Once the market is proven, the catalytic developer

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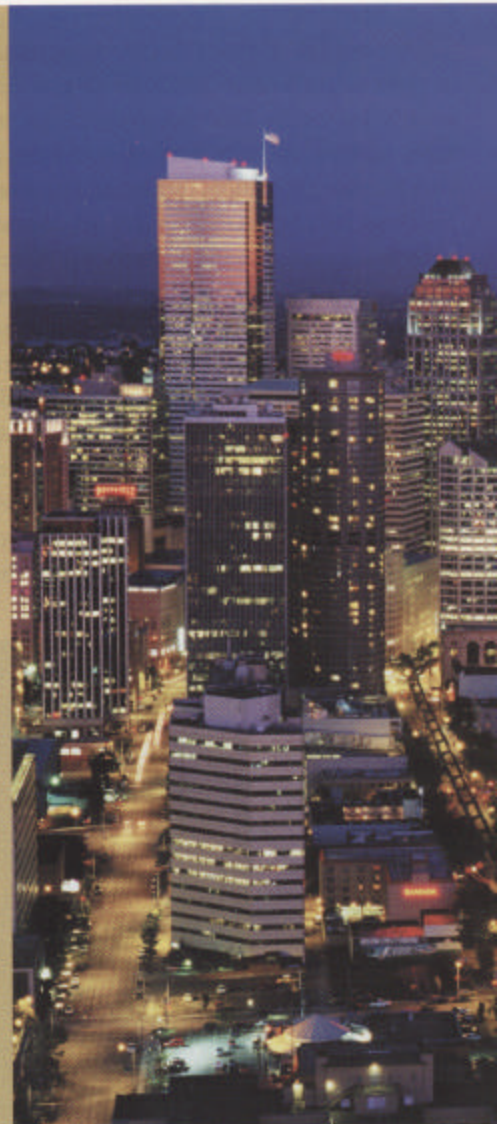
performing arts **CENTERS**, movie

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SPECIALTY retail businesses,

convention centers, and the like,

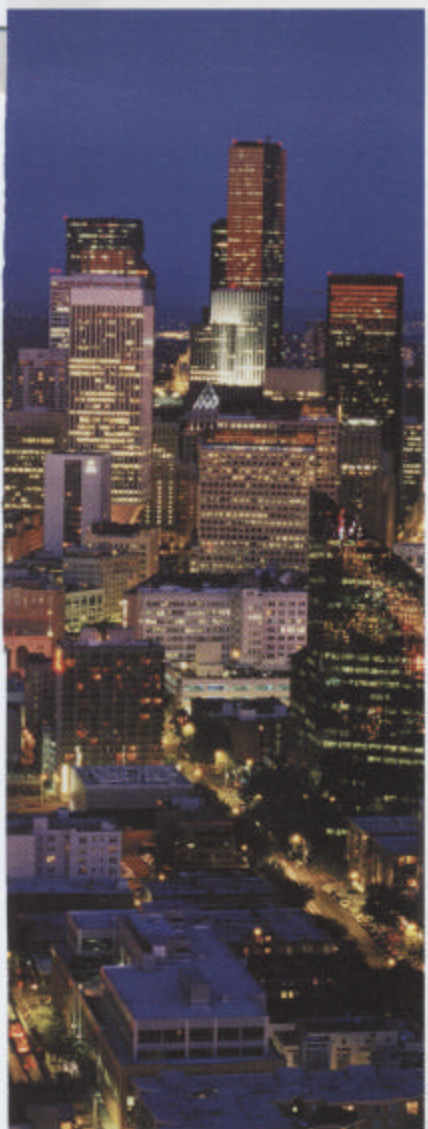
depending on **MARKET** demand.



can form joint ventures with private developers, possibly by providing the land for the deal. The catalytic developer eventually will work itself out of the business as more developers come to understand the financial benefits of development downtown.

The last six elements show how a downtown can become a viable, sustainable real estate market, propelling value creation. Figure 2 (on page 72) demonstrates how these six steps progressively make a private real estate market downtown viable over time.

■ **Step 7: Urban entertainment.** Walkable urbanity starts with urban entertainment—venues and retail space that are within walking distance of one another. Before households will move downtown, there has to be a "there" there, which urban entertainment creates. This includes arenas and stadiums, performing arts centers, movie theaters, restaurants, nightclubs, specialty retail businesses, convention centers, and the like, depending on market demand.



BETTY (SEATTLE)

■ **Step 8: Rental housing.** The urban pioneers looking to live within walking distance of downtown urban entertainment tend to be young—generally college students or those in their 20s and 30s. This age group, predominantly raised in the suburbs, tends not to have as negative an impression of downtown as their elders may have, looking instead upon it as an exciting place. These young people tend to need rental housing in order to live downtown.

■ **Step 9: For-sale housing.** Following creation of a “there” there with urban entertainment to walk to and initial colonization of downtown by urban pioneers who rent, for-sale housing will come next to downtown. For-sale housing appeals to a different set of households than does rental housing. Buyers tend to be older, not as adventuresome, and they are doing something renters cannot do—moving the largest investment in their personal portfolio, their abode, to a revitalizing downtown. They need to know that it is a safe investment, will appreciate in value as well or better than the rest of the hous-

ing market, and that there is a resale market. Lack of a proven resale market is the greatest obstacle to establishing for-sale housing in a reviving downtown. Because for-sale housing is 50 percent of the entire built environment, it is crucial that the success of downtown be established.

■ **Step 10: Affordability strategy.** Most pioneering revitalization efforts focus on, in essence, gentrifying the downtown. There is a need to focus consciously on creating affordable housing and commercial space to maintain diversity, a major attraction of downtown, and to have a socially just place for all economic groups.

■ **Step 11: Local-serving retail strategy.** The biggest complaint urban pioneers have is the lack of local-serving retail, such as groceries and drugstores, and even big-box retailers. Local-serving retail is a “follower” real estate product—that is, the housing must be in place before a grocery store can move in; it is not a case of “Build it and they

will come.” For example, as a downtown is redeveloped, initially there are not the 20,000 to 30,000 households within a three-mile radius needed to justify building a conventional grocery store.

However, another major obstacle exists: local-serving retailers have spent the past three generations building in the suburbs, relying on new housing subdivisions for demand and on cheap land to provide surface parking; they have no experience in an infill urban location with parking challenges. These national and international companies have top-down policies for site selection using the suburban paradigm.

Some national and regional local-serving retailers experimenting with urban locations include Home Depot; the Ralphs, Safeway, and Kroger grocery chains; Toys “R” Us; and the major chain bookstores, among others. Grocery stores, in particular, are finding urban locations exceedingly profitable because less shelf space is devoted to less-profitable paper goods, like diapers, and additional space is set aside for more profitable takeout food for busy professional households.

■ **Step 12: Office employment strategy.** Office developers will attest to the fact that the main reason offices are built where they are is that “the boss lives nearby.” Once upper middle-income, for-sale housing is built downtown, there eventually will be a return of a healthy office market and the employment that it drives. Once the bosses, who make the ultimate decision about office location, begin to live downtown, they will decide to bring their offices downtown. This has happened in downtowns that have been redeveloped over the longest period, such as Denver, Seattle, and Portland, Oregon. Denver, in particular, had a vastly overbuilt office market following the energy bust of the early 1980s, which left office vacancies at more than 30 percent. The 1990s economic boom, the conversion of obsolete office space into housing, and the fact that bosses were living in the new for-sale housing downtown spurred office construction over the past four years.

These 12 steps of revitalizing downtowns have been followed by cities ranging from San Diego to Chattanooga, and from Portland to Baltimore. The experience in these and many other downtowns shows that downtown revitalization is one of the most complex and challenging undertakings anyone can pursue, but also one of the most rewarding. ■

CHRISTOPHER B. LEINBERGER IS A PARTNER IN ARCADIA LAND CO., A NEW URBANIST DEVELOPMENT FIRM BASED IN PHILADELPHIA, AND A MANAGING DIRECTOR OF ROBERT CHARLES LESSER & CO., A REAL ESTATE ADVISORY FIRM BASED IN WASHINGTON, D.C. (ARCADIA CURRENTLY IS THE MANAGING MEMBER OF A CATALYTIC DEVELOPMENT COMPANY IN DOWNTOWN ALBUQUERQUE WITH \$50 MILLION OF DEVELOPMENT FINISHED OR UNDER CONSTRUCTION AND ANOTHER \$140 MILLION IN THE DEVELOPMENT PIPELINE.)

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