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EMILY BADGER SEPTEMBER 5, 2012

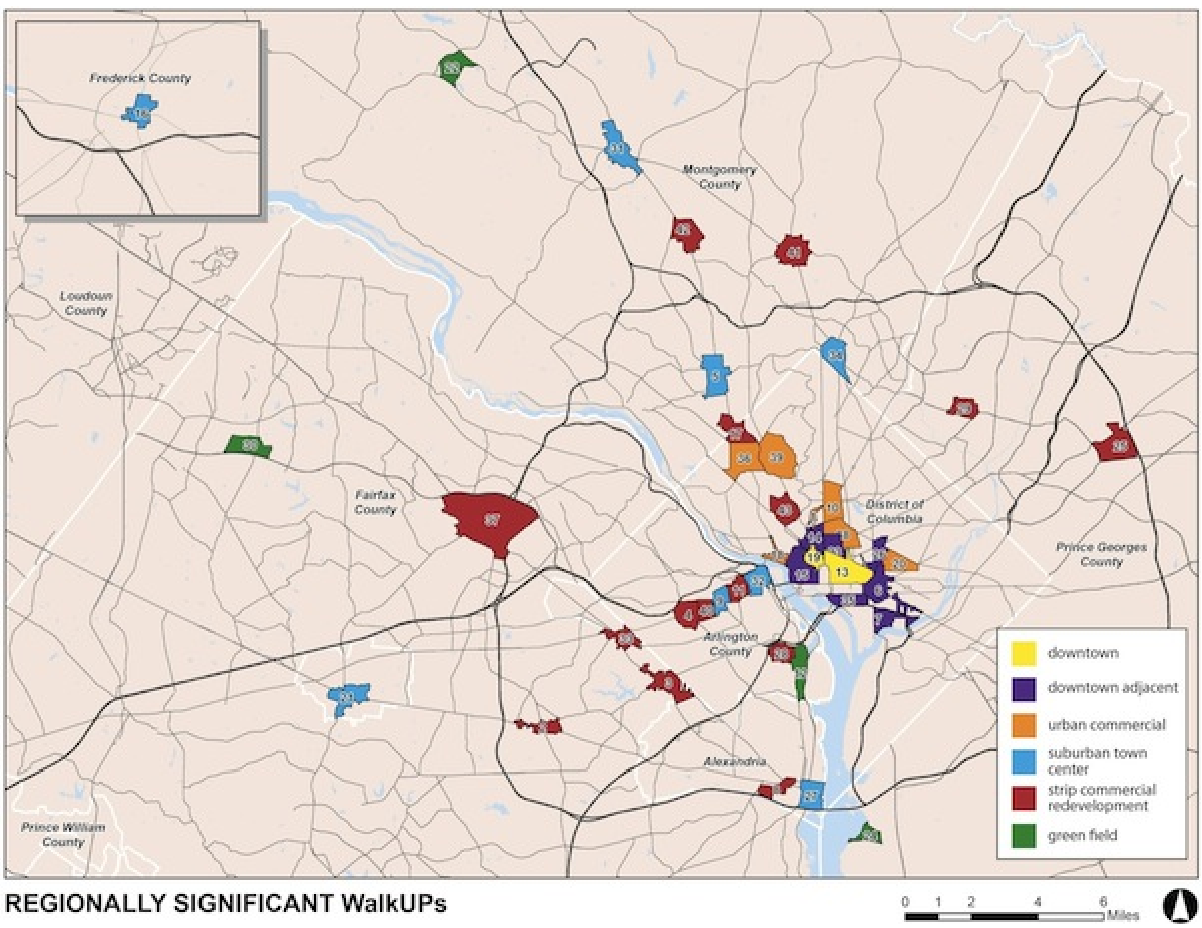
How shifting demand could pull real estate developers (in cities and the suburbs) in a new direction over the next generation.

Not too long ago in Washington, D.C. – and still today in plenty of other cities – "walkable urbanism" was a niche real estate market. Developers weren't all that interested in mixed-use, compact projects, of the kind where carless urbanites might live, work and grocery shop in strolling distance. And people didn't seem to want to live in them anyway. But things have been changing in the capital. Now, argues real estate developer and George Washington University professor Christopher Leinberger, walkable urbanism is becoming *the* real estate market.

Stories of Urban Reinvention. **See full coverage**

Washington's evolution hints at what will happen in this next real estate cycle in cities everywhere, Leinberger concludes in new research to be presented at a conference on the topic next week. His findings build on an earlier study conducted at the Brookings Institution. In all, the Washington region now leads the nation with 43 distinct neighborhoods Leinberger has identified as "regionally significant walkable urban places" (in other words, those walkable places that also help power the metro economy as jobs centers).

A mere .9 percent of the land in the entire Washington region is currently devoted to such places. But 34 percent of the region's jobs are located there. And these places, Leinberger argues, represent the future of cities everywhere – for the coming wave of development in residential construction, in office space, in entertainment and in retail.



George Washington School of Business Center for Real Estate and Urban Analysis

"Less than 10 percent of the entire metropolitan land mass is where development wants to go over the next generation," Leinberger says. "We don't need to add another square foot – or, in the case of sprawl, another square mile – of land to the metropolitan area. We've already urbanized as much as we need to."

This is a pretty radical pronouncement: if Washington continues to grow over the next generation, without continuing its voracious spread into the Virginia and Maryland countryside, that development pattern would defy decades of history since World War II. And just because the region's existing urbanized footprint can handle all of this new development (Washington is a fraction as dense, for instance, as low-rise Paris), that doesn't guarantee that policymakers and real estate developers will be able to switch gears as fast as this demand is shifting.

Leinberger, however, points to real estate data dating back to the early 1990s that suggests this transition is already well underway. During the 1990s real estate cycle (from 1992 to 2000), 38 percent of the new office space built in the Washington area was constructed in these walkable places. In the next cycle, from 2000 to the beginning of the recession in 2008, that number went up to 49 percent. Since 2009 – the onset of this latest real estate round – that figure has gone up to 59 percent. New rental apartments have similarly trended in this direction. In the 1990s, just 12 percent of new rental apartment space built in the region was constructed in these walkable places. Since 2009, 42 percent has been. And Leinberger calls that a wildly conservative calculation. (Retail construction lags in this regard, perhaps a result of the fact that many big-box retailers are still figuring out how to wedge themselves into urban settings).

Leinberger is basing his analysis not on projections of where consumer demand may go next, but on these trends that have been gaining steam for some time. You can also detect this shift, he adds, in the price premium the market now demands for a walkable home or office over a comparable outlying one ("and we're not comparing a dump to a mansion," he adds).

It helps his argument that he's talking in market trends and not moral imperatives. Much of the conversation around "walkable urbanism" sounds almost paternalistic to suburban ears, as if everyone *should* and *must* decamp to high-rise condos above a Whole Foods. In fact, although Leinberger has labeled these communities "walkable urban places," more than half of them in the Washington region are actually located outside of the District (including, for example, this one). "This is about the urbanization of the suburbs," he says.

He isn't advocating that suburbanites move downtown. If he's imploring anyone to action, it's the builders and real estate developers who don't seem to have picked up on shifting market demand yet, and the policymakers who have the power to clear obstacles to this kind of development (for starters, by promoting multi-modal transportation and mixed land use).

"There's no value judgment here," Leinberger says. "For people who want the big back yard, this is also good news, because it's cheap. And the reason it's cheap is because we as an industry built too much of it."

His tone is harsher for real estate developers, many of whom, he says, are still behaving as if they're building circa 1980.

"Quite honestly, one of the major reasons that we're not seeing the real estate industry read these market signals is that it's hard to teach old dogs new tricks," he says. "They know the answer to everything. They're very strong-headed, and opinionated, and particularly those who have been successful for many decades in building regional malls or subdivisions, they know what the market wants. And dammit, you can't tell me anything different."

But these trends that are emerging in Washington, he warns, will be coming soon to cities everywhere. Cincinnati, for instance, has been finalizing a long-running comprehensive plan that would funnel growth toward 40 walkable "Neighborhood Centers."

Leinberger dismisses the common critique that Washington serves as an ill-fitting model for other cities, given its unique reliance on the federal government (and related insulation from economic downturns). Every city, he says, has its economic specialty, whether that's Detroit with autos or Seattle and airplanes. For years, Washington's development has been quite similar to that of other southern boomtowns. But what makes the city a leading indicator now, Leinberger hypothesizes, is its high education level – the highest in the U.S. – in a country where education levels have long been rising everywhere.

"We've got this rising tide of college-educated people, which is the key component to the knowledge economy, which is what's driving our economy," Leinberger says. "And as [Richard] Florida and a lot of other folks have pointed out, the college educated want the option of urbanism."

Washington, he figures, just happens to be getting here first.

Top image: Crystal City in Arlington, Virginia. (Flickr user cliff1066™)
