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Guiding investment into urban centers

A new analysis of walkable urban places in the DC region creates a grading system that could help guide US urban real estate investment in coming decades.

ROBERT STEUTEVILLE

The first regional, comprehensive analysis of mixed-use urban centers finds that they account for a rapidly growing share of real estate development in the DC region. The nation's capital is a model for how the US will develop for the next generation, says author Christopher Leinberger, research professor of urban real estate at George Washington University School of Business.

DC leads the nation in developing walkable urban centers — which Leinberger calls WalkUPs — because of the region's level of education is the highest in the nation. The higher the education level, the greater the demand for urban living, he says.

The DC area has 43 "regionally significant" WalkUPs, up from about five a quarter century ago. That's an increase of more than 750 percent. The region also has many "locally serving" walkable places — quieter mixed-use neighborhoods. Leinberger focuses on the regionally significant WalkUPs, however, because those will capture the interest of Wall Street and institutional investors. The report grades WalkUPs based on economic performance, i.e. lease rates and sale prices, grouping them into categories Copper, Silver, Gold, and Platinum.

Regionally significant WalkUPs account for less than 1 percent of the region's land area but contain 29 percent of the income-producing property. Investors need an easier way to judge risk and return — and therefore put more capital into urban places, Leinberger explains. "They are the ones most banging the table for me to get this in a position that it can be rolled out nationally," says Leinberger, a developer, author, and former

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A public space in Woodstock Downtown, a successful redevelopment in a previously somnolent Georgia town, is active with users. See article on Page 4.

PHOTO COURTESY OF CHERI MORRIS

Next generation Florida project includes streetcar

The plan for 'Restoration' is a more compact traditional neighborhood with its own transit system.

Many streetcar lines were built in America in the early part of the 20th Century as part of development projects — transit paid for through the sale of homes. This has been called "development-oriented transit." In the last decade, we have seen a revival of streetcar lines near urban downtowns — most built to spur economic development.

Now we have, perhaps, the first large-scale modern US greenfield development proposed with a streetcar. The plans for Restoration in Edgewater, Florida — approved by the municipality September 24 — include a 3- to 4-mile internal streetcar line estimated to cost about $10 million per mile. That's much less than cities typically spend for a streetcar system, because the plan avoids many of the street closure and reconstruction costs associated with placing transit on an existing urban street, says Eliza Harris, project manager with Canin Associates in Orlando.

With 8,500 planned housing units, Restoration is close in size to Celebration in Orlando. It's one of the biggest new urban projects ever approved, and certainly the biggest post-recession TND (traditional neighborhood development) planned to date. Planning for Restoration began prior to the housing crash, Harris notes, so it could be considered a holdover from another era. Or, with its combination of wetlands protection and frugal infrastructure — even including the streetcar — it could be indicative of more efficient greenfield developments in the future.

"Because of the regulatory environment and changing demographics, it

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buildings back from the banks. (Not among the purchases were two large buildings containing 20 retail spaces at street level and several floors of housing containing 90 condo units.)

"POWER OF WELL-EXECUTED URBANISM"

In 2008 a Congress for New Urbanism judging panel chose Woodstock Downtown for a Charter Award, saying the project revealed "the power of well-executed urbanism to strengthen communities, achieve broader sustainability and create places worthy of respect and admiration." That judgment has proven prescient, for the project not only revived faster than most development in the region but also sparked new undertakings nearby.

"My property is 100 percent leased," Morris happily reports. And on the west side of the railroad tracks, a 22-acre tract originally assembled by Hedgewood is now being developed by Walton Communities into a combination of 310 apartments—some for "active adults," others for all ages. Perhaps 20,000 square feet of retail or office space will be added later.

The layout continues the new urban traits used in Woodstock Downtown. "We mandate on-street parking; it counts toward on-site parking," McLeod says. A parking garage will be wrapped by residential units. The buildings have small footprints. "We've got strict controls ... to keep big boxes out," he says.

In that west side project, he notes, "we are implementing a grid network." The existing Main Street, which parallels the railroad tracks, will be paralleled by two new streets and eventually by a third. "The grid is mathematically a superior way to get around," he believes. "'If there's an accident or a derailment, vehicles can get around it. Connectivity is critical."

On the south end of downtown, the first phase of a 90-acre project called Southgate has been approved. It, too, will have a mix of uses.

One of the most exciting results of Woodstock Downtown, says Walsh, is how it has sparked new endeavors undertaken by the city's leadership and citizen groups. Two examples:

• Greenprints was launched—a 60-mile network of trails, with its central portion running along Main Street. The paths bring people to and from Woodstock Downtown, offering them a pleasant alternative to driving. City Council provided funds for the Greenprints master plan along with nearly 10 miles of mountain bike trails. Citizen groups worked to further define the trail system, while a new non-profit, the Greenprints Alliance, was formed to raise private funds to complete the trail system.

• Elm Street Cultural Arts Village was founded by several local artists. The initiative grew out of a desire to preserve the historic Reeves House downtown. With support from the Towne Lake Arts Center, a local group looking to move into the downtown area, plans are underway to convert the Reeves House into studio and gallery space surrounded by a heritage garden. In addition, a 100-seat black-box theatre has been proposed for the grounds.

Woodstock Downtown's development team, in partnership with the City, sees its project as having successfully combined critical densities, quality open spaces, connectivity, compatible design, and seamless integration of uses—ensuring that the community is alive with residents and visitors.

To Morris, one of the guiding strategies is that as the more urban parts of a region revive, one of the first things that comes back is restaurants; they lead the revival, so it's essential to make sure that they're placed, designed, and operated in ways that will help them succeed.

"We gave the people of Woodstock their heart and marketplace by giving them back their downtown," Morris says. That, in turn, has fostered grassroots activity and cultural enrichment. "America is full of suburbs like Woodstock," she says—places where "consumers would like a better choice than the commoditized retail we see everywhere."

The financing world still makes such projects hard to carry out. "We need more success stories," she believes, "and we need more of the commercial portions of new urbanist projects to be financial successes." ◆

Investment in urban centers

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co-owner of the real estate consulting firm Robert Charles Lesser & Co.

"Really smart developers know in their gut the good places to invest but can't justify it economically and nobody trusts them (on that judgement), for some reason," he told *Better! Cities & Towns*. The report, titled *The WalkUP Wake-Up Call*, puts numbers to developers' gut feelings, says Leinberger.

Since 1990, WalkUPs have steadily gained a larger share of commercial development in the region and they generate taxes far out of proportion to the land they consume. They also get premium rents and sale prices, but that was not always the case. "Up until the 1980s, drivable suburban office space commanded a premium rent over WalkUPs, but this position has reversed. There is currently a 75 percent premium for WalkUP office rent, giving such places a market advantage." That premium is a nationwide trend, Leinberger reports, proving that the market is now demanding mixed-use urbanism.

Three factors explain the superior economic performance of WalkUPs: greater walkability, job density, and higher workforce education.

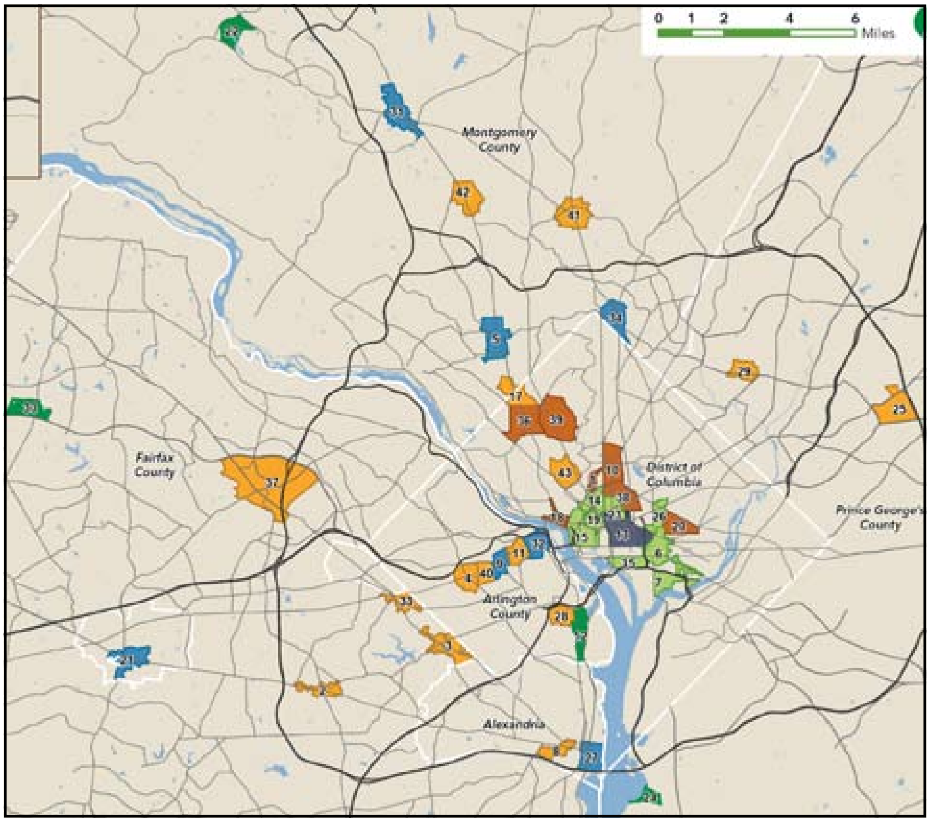
Walkable urban development used to be a niche market, Leinberger says. "Today and in the future, it will be considered *the market*." One reason is overbuilding of sprawl in the last five or six decades. Another is the highly educated, creative workforce that is increasingly made up of 1- and 2-person households. Metro areas without good urbanism will be left behind.

IMPACT ON INVESTORS

But in order to make this shift, one obstacle to overcome is discomfort on the part of investors. That's where the grading system comes in. Investors looking for real estate opportunities should understand these place characteristics and what they mean for risk and return.

• The Copper WalkUPs have the lowest rents and sales prices, and the lowest Walk Score (averaging just over 75). Investing in such places means that a long-term time frame is required to maximize returns, though entry prices are relatively modest. Place strategy and management for Copper WalkUPs is particularly important to ensure economic performance, he says.

• Silver WalkUPs have substan-



THE WALKUP WAKE-UP CALL, LEINBERGER

WalkUPs in the DC region, shown above in various colors, are now focusing development toward the urban core. Most WalkUPs are in "inner ring" suburbs or DC itself.

tially higher Walk Score — averaging 86 — and correspondingly higher rents. Leinberger is most bullish on this group, which is in a good position for growth in the current real estate cycle. Silver WalkUPs have the potential to emerge with a Gold ranking, increasing returns substantially, he explains.

• Investing in Gold or Platinum WalkUPs is much less risky but the high price of entry reflects this reality. The upside of Platinum investments will be will be more stable returns and, thus, they are attractive to institutional investors (insurance companies, pension funds, REITs, etc.), he says.

Discussions on how to expand this grading system nationwide are just beginning, Leinberger says. A number of models are being considered, including one based on a Standard & Poor's/Moody's rating system (which Wall Street is familiar with), one based on the LEED rating system, and one based on Walk Score (free and paid for through advertising).

The rent levels will have to be calibrated regionally. Leinberger plans to bring this system to Detroit and Atlanta in 2013 and is "looking to craft a business model for a national ranking system by 2014," he told *Better! Cities & Towns.*

TYPES OF WALKUPs

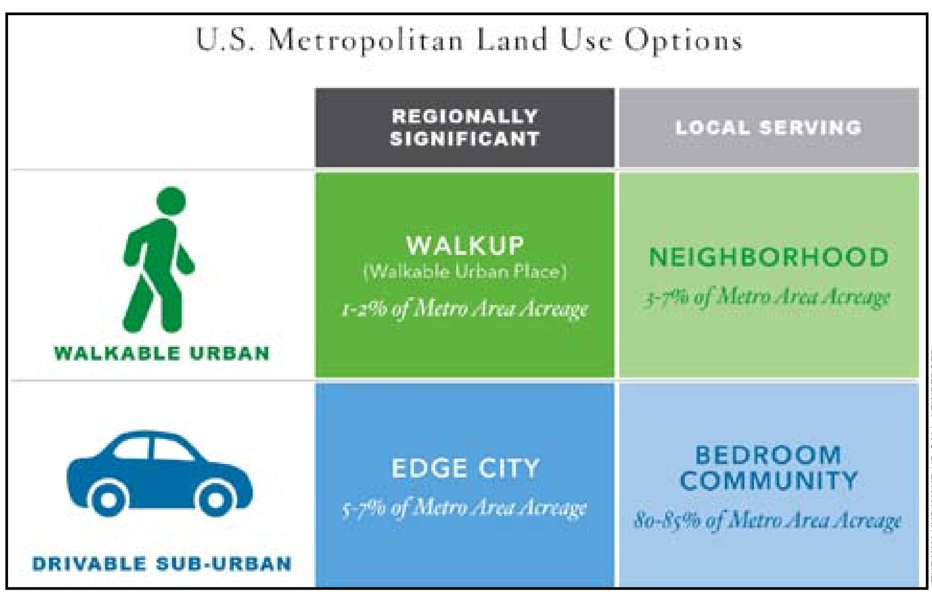
The new real estate paradigm is no longer city versus suburbia, it is walkable versus drivable, he says. Three of the six WalkUP types are in the city, the rest in the suburbs. Suburban types include revitalized town centers like Rockville and Silver Spring, Maryland. "Suburban town centers have found a new role. These are the remnants of 19th Century towns that were swept up in the suburban expansion, and experienced decades of decline," he says.

Another suburban category includes regional malls that have been or will be urbanized. "This type of WalkUP will be the major focus of walkable urban development over the next generation," he writes. In DC, most of these have the advantage of Metro service — Tyson's Corner is about to get four Metro stations. The challenge with Tyson's and many suburban WalkUPs is a predominance of overbuilt, automobile-oriented thoroughfares that damage walkability.

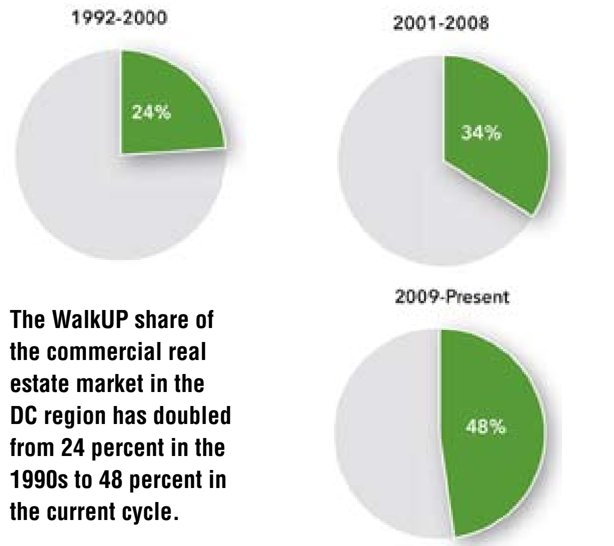
Retrofitting the suburbs is the biggest challenge of the next generation, says Leinberger. "Baby boomers finally figured out how to revitalize downtowns, but the job of the next generation is how to transform these shopping malls and commercial strip corridors into walkable places." Standing in the way: Departments of Transportation that are determined to protect traffic flow. "If DOT refuses to cooperate, somebody will have to fire them one way of the other," he says. One solution is to get roads transferred to local municipalities.

What about greenfield new urban communities which were being built rapidly in the late 1990s and early 2000s and show up as WalkUPs in places like Kentlands in Maryland and Reston, Virginia? Leinberger does not think that much investment will go in this direction, due to large upfront capital costs and

The built environment in US metro areas falls into 4 categories, two of which are automobile-oriented. These usually comprise more than 90 percent of the land area.



THE WALKUP WAKE-UP CALL, LEINBERGER



The WalkUP share of the commercial real estate market in the DC region has doubled from 24 percent in the 1990s to 48 percent in the current cycle.

THE WALKUP WAKE-UP CALL, LEINBERGER

"high market risk." Neither Kentlands nor Reston are linked to rail transit.

Overall, the shift toward WalkUPs has refocused development toward the center. The vast majority are in the city core and first-ring suburbs.

INCOME PROPERTY CATEGORIES

The share of the four income property categories (office, retail, apartment, and hotel) located in DC-area WalkUPs increased steadily over the last two decades. It was 24 percent in the 1990s, 34 percent in the early 2000s, and is 48 percent since 2009. But there are significant differences between individual categories.

• Office space was the driver of the trend toward building regionally significant walkable urban product. Some 38 percent of the office space delivered in the 1990s was built in WalkUPs. This increased to 49 percent in the 2000s and to 59 percent since 2009.

• Rental apartment developers have begun to aggressively pursue walkable urban locations. In the 1990s, only 12 percent of the region's new rental apartment space was built in WalkUPs. In the early 2000s, this rose to 19 percent and has skyrocketed to 42 percent today.

• Development of retail space lags. Only 8 percent of the retail space developed in the region in the 1990s was located in WalkUPs. For the early 2000s, it rose to 16 percent but has fallen to 13 percent for the cycle starting in 2009. Leinberger attributes this to retailers not knowing how to build in urban centers, but he adds that reality is changing. Grocery stores, specialty retailers, and a few big box pioneers like Target are leading the way. "Many rental apartments over grocery stores are under construction in local-serving WalkUPs," he says.

THE IMPORTANCE OF RAIL

Most of the DC area WalkUPs are located along the Metro rapid transit system, which was built in the 1970s and provides a foundation for transit-oriented development. Metro was originally funded with federal dollars, but the system has been expanded 29 times, mostly with local funding, Leinberger notes. This proves that regions can fund their own mass transit, which is good thing. Many regions like Charlotte, Denver, and Salt Lake City are doing it, but others like Atlanta — which just turned down a referendum that would have funded an expansion of transit — are missing the boat, he says.

"Metro areas need to recognize that rail transit is the most important transportation investment of the 21st century, every bit as important as the Interstate highway system in the middle of the 20th Century," he said. Local regions will pay to build these systems, he says, because the federal government likely will not.

DC is fortunate in its rail system, which includes suburban stations surrounded by underutilized land. But such is also the case with new light rail lines, he adds, and even the legacy commuter rail systems of New York City, Boston, Chicago, and Philadelphia, half of which are located in the suburbs. The areas around these old stations are "absolutely underutilized," he says. They don't get developed because of "NIMBY opposition," which he describes as "the number one social issue we have to address, so that we can take on climate change, social equity, and put infrastructure in place that fits the knowledge economy and creative class. If regions don't do it, they are toast."

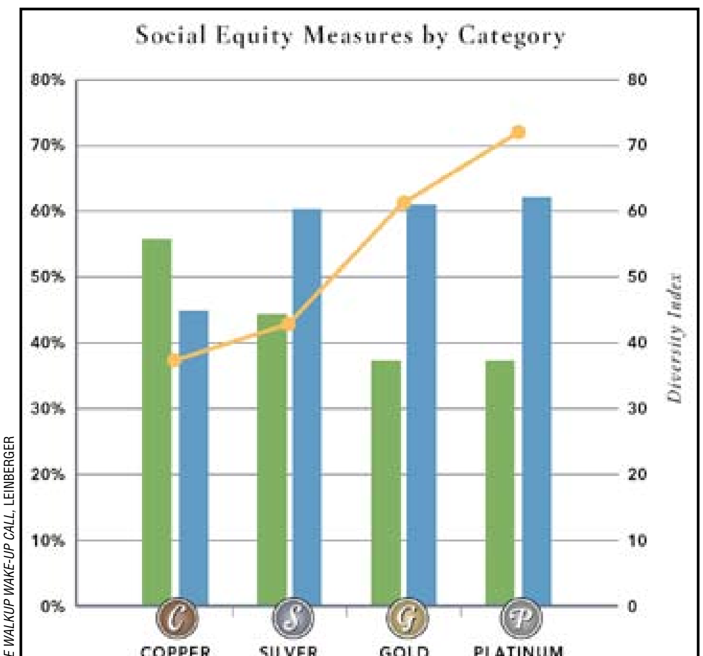
SOCIAL EQUITY AND OTHER CHALLENGES

The report examined and graded WalkUPs based on a range of social metrics. Land values are much higher in WalkUPs, which impacts housing costs. Residents compensate by renting and occupying smaller spaces.

Transportation costs are low in WalkUPs. Looking at housing and transportation costs combined, WalkUPs are surprisingly affordable. About 78 percent of WalkUPs have housing and transportation costs below 45 percent of the area median income, and below the regional average.

Racial diversity is much higher in WalkUPs, with more than three-quarters having a diversity index higher than the

WalkUPs graded for housing and transportation costs (green), access to regional jobs via transit (blue), and diversity (yellow). Many WalkUPs are diverse and surprisingly affordable.



THE WALKUP WAKE-UP CALL, LEINBERGER

region as a whole. The bad news is that as economic performance rises, many WalkUPs experience a drop in social equity.

"What is needed is a conscious strategy for each WalkUP to create and maintain affordable and workforce housing, as well as to increase accessibility," Leinberger says.

Yet, he adds: "The ultimate solution to affordable housing is to build more walkable urban product."

For that to happen, the proper zoning must be in place and the infrastructure planned and financed in order to make the place more walkable. Emerging urban centers near former suburban shopping malls will need special attention because these places are badly planned from a pedestrian standpoint. The report recommends that more be done to understand and take advantage of "value capture" — techniques that utilize rising property values in WalkUPs. "These private sector, TIF-like, arrangements can help pay for infrastructure and social programs," Leinberger says.

Walkable urban places benefit from "place management," which Leinberger says will become an important new real estate industry. Place management often takes the form of a business improvement district — but it requires somebody to focus on constant improvement of place from physical, cultural, and social standpoints. Some DC WalkUPs, like Dupont Circle, have emerged without place management, but that is mostly the result of having been "dealt a good hand by the market," he explains. Other emerging ones — particularly those with automobile-oriented infrastructure, are not so lucky.

Leinberger explains that WalkUps are the outcome of smart growth policies that have been debated for the last two decades. "The time for debate is over. The market has spoken," he says.

"This shift is extremely good news for the beleaguered real estate industry and the economy as a whole," he says. "It will put a foundation under the economy as well as government tax revenues, much like drivable sub-urban development benefited the economy and selected jurisdictions in the second half of the 20th century." ◆

TND with streetcar

FROM PAGE 1

had to be really forward thinking in design to survive and compete with what is already built," Harris says.

Edgewater is a mostly automobile-oriented Central Florida coastal town. The 5,187-acre development site is located on the west side of Route 95 — the opposite side to most existing development. The project is still a long way from getting underway. The municipal approval stipulates construction to begin within four years, but details such as who will do the construction, design the buildings, or finance various phases of the project have yet to be determined. The developer is GS Florida.

Once the project begins, Restoration is projected to have a 20-year buildout. The full streetcar would likely wait until the second half of the project, but a demonstration system could be installed early on for marketing purposes, Harris says.

FRUGAL INFRASTRUCTURE

How could such a massive project, with its own internal rail line, be considered frugal? Restoration has gone through several designs, and current plans have been compared to a previous version for environmental impact and cost. The savings are eye-opening. A 2006 plan is typical of Florida master-planned development, although a little more progressive. There's a traditional neighborhood development (TND), a golf course, senior housing, and a regional commercial center spread out on much of the site. More than half of the site is preserved — but the open space is broken up into many pieces (see bottom plan on page 10).

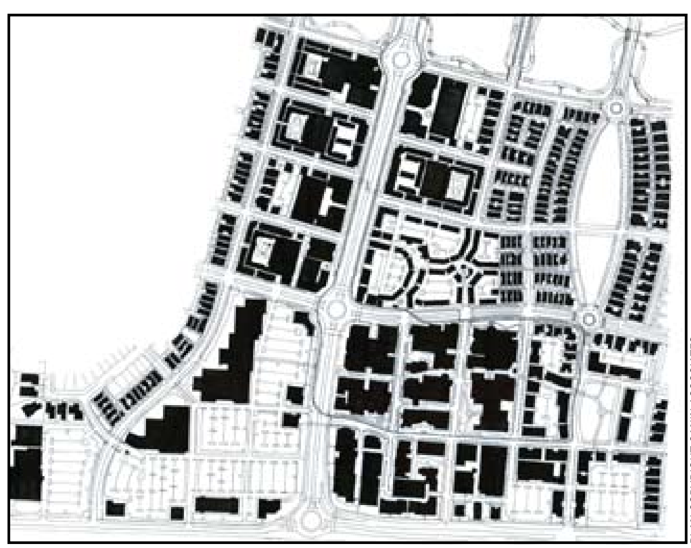
The new plan puts all development on one contiguous area covering 27 percent of the parcel (see top plan on page 10). This design eliminates 47 miles of thoroughfares — saving the developer $127 million. Landscaping costs are reduced by $68 million. Total infrastructure savings of $199 million dwarf the projected cost of the streetcar. Despite the size of the project (approximately 160-170 urban blocks), the layout is fairly simple. It's not a quite basic grid, but close. The development and construction will be more efficient than in pre-recession new urban master-planned communities. The numerous parks are mostly small and don't disrupt the grid. The stormwater system doubles as public waterfront.

Traffic impact fees will be significantly reduced due to the transit system and walkable design. An estimated 50 percent of the trips will be captured internally, with a 41 percent cut in vehicle miles traveled. Gas savings by residents are estimated at $12 million a year.

Essentially, the streetcar is an amenity — like a golf course in pre-housing-bust days. Residents would likely pay some streetcar operating costs through homeowners fees, Harris says.

For economic development reasons, the city is a big supporter of the project. So is the Audubon Society — an organization that opposed previous versions of the plan. The new plan sacrifices some lower-quality wetlands in order to preserve more contiguous natural land. The more common Florida technique is to avoid wetlands — but in doing so spread out over a larger area and have a greater impact on the environment.

A figure-ground drawing for Restoration town center



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