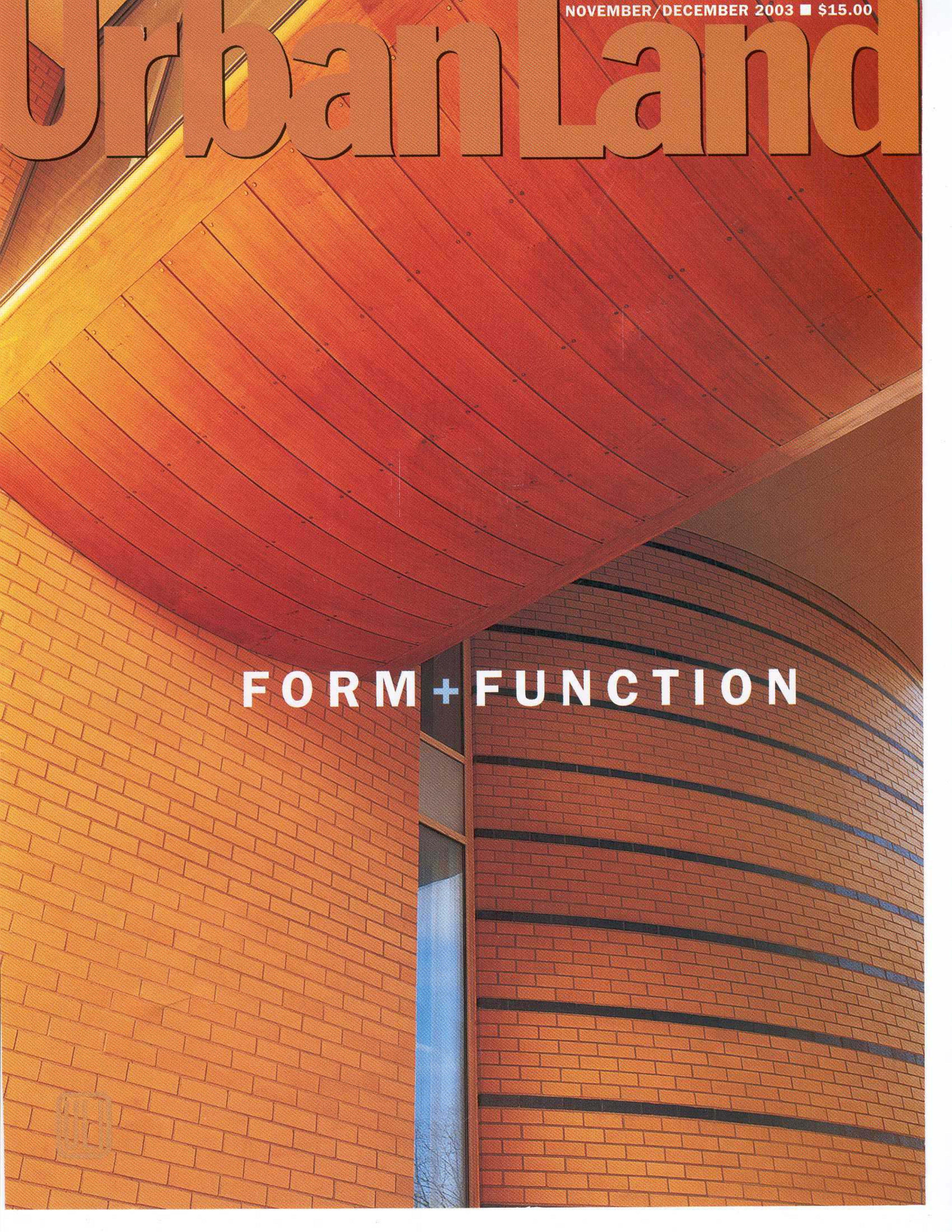
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Christopher B. Leinberger

Building for the long term

The way projects are underwritten today virtually guarantees that they will never meet the standards and longevity of pre–World War II buildings.

"DON'T FALL IN LOVE WITH YOUR PROJects" and "Know your exit strategy before you invest" are two principles most developers live by. These rules imply that real estate development is a cold, rational business with no room for emotion, and that only projects that can easily be sold should be built—preferably after as short a holding time as possible. These ideas have been the foundation for the formula-driven real estate development industry, the multibillion-dollar public equity market, and the multitrillion-dollar secondary debt market—and are responsible for the fact that what is built has a short-term economic and physical life.

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Over the past two generations, what for 5,000 years had been a 40-year asset class has been reduced to a seven- to ten-year economic lifespan for most projects. The way projects are underwritten today virtually guarantees that the quality of their construction will never meet the standards and subsequent longevity of buildings built before World War II. Developers have become builders of disposable boxes that function as stand-alone, modular billboards to grab the attention of passing motorists rather than as architecture and components of complex urbanity.

What would be required if developers wanted to build for the long term? What if developers wanted to build projects they loved and could be proud of? And what if they wanted to build for a long-term hold rather than a short-term flip? It would require an entirely different approach to financing projects—an approach that would increase construction costs and equity investment. It also would mean building in a location that would not quickly be made obsolete by sprawl that continuously takes market demand to the ever-expanding fringe.

This approach is substantially different from that of conventional development—particularly for income products (retail, office, rental apartments, etc.)—which is predicated on building according to well-understood formulas that provide, first and foremost, stand-alone, single uses with high visibility and access by car. Income products today must be large enough—over 200 units for apartments and over 100,000 square feet for a neighborhood retail center—to be of interest to institutional buyers, and preferably be filled with creditworthy national tenants. These are the forces that lead to the "could be anywhere" nature of America's built environment and that encourage developers generally to build and flip projects within a few years of construction.

The financial forces arrayed against developers wanting to build and hold for the long term are formidable. Banks providing the construction debt must, by regulation, be in and out within five years, though this is not an insurmountable problem. Equity investors generally have an even shorter time horizon, driven by expectations of 20 to 35 percent internal rates of return. Developers rarely have enough of their own equity to cover more than upfront costs for controlling the land and performing the required design, legal work, and financial packaging.

In addition to the constant pressure to build and flip, developers are under extreme pressure to obtain early cash flow from their projects because conventional underwriting cannot discern cash flows beyond five to seven years, no matter how healthy that cash flow might be. The major place to impose the cost cutting necessary to obtain early cash flows is the construction budget, making the goal to build the project "faster and cheaper." So what if only a seven- to ten-year roof is used or if much of the so-called architecture is plastic or sprayed on. If the building is functionally and physically obsolete in seven to ten years, what motivation is there to care, since by then it will be someone else's problem? Building for the long term requires an understanding of how buildings were built before discounted cash flow, single-use zoning, and automobile-oriented sprawl began to dominate real estate development.

J.C. Nichols (Country Club Plaza in Kansas City, Missouri), George Merrick (Coral Gables, Florida), and Robert Davis (Seaside, Florida) were all motivated by both love and money. They built special places for the long term—places that gained value over time and produced substantial cash flows. These "town founders" were committed to a specific location and to enhancing its quality of life. The lessons learned from these developers could help those who want to build for the long term.

Location. Real estate value has always been determined by location. Yet, conventional development has had to contend with a constantly changing definition of a good location due to ever-sprawling metropolitan areas. Over the past 20 years, for every 1 percent increase in population, most metropolitan areas have seen a 5 to 12 percent increase in land consumption. Many locations with high market demand in 1980 have been left behind as sprawl has moved outward, leaving mile upon mile of low-occupancy or abandoned strip malls and downward pressure on adjacent single-family housing values. As sprawl continues to move demand to the ever-redefined fringe, the market in 2020 probably will leave behind today's good locations. This is why the label "edge city" cannot be applied to an

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area for long: the edge is continually and rapidly moving outward. Reflecting this, Robert Lang, director of the Metropolitan Institute at Virginia Tech, titled his new book about metropolitan development trends *Edgeless Cities*.

Car-dominated, modular, conventional real estate development will always produce sprawl and placelessness. It also produces good short-term cash flow in exchange for poor medium- to long-term financial performance. If sprawl has not pushed market demand beyond the location of the asset when it needs complete redevelopment after seven to ten years, the investment community will only commit for a subsequent seven to ten years. And even if conventional underwriting could see beyond those years, no investor wants to bet long term on a place when sprawl can torpedo market demand. The value created and cash flows tend to peak in years seven to ten. If sprawl has not moved demand farther out, the project could be redeveloped, generally for as much as it took to build it in the first place, and go through the same seven- to ten-year curve.

In essence, there are only two forms of metropolitan development:

- suburban development, with a floor/area ratio (FAR) of 0.2 to 0.4, and semirural development, with an FAR of less than 0.2, both dominated by the automobile; and
- urban development, with an FAR generally over 1.0, which relies on multiple transportation options such as car, bus, transit, bicycle, and walking.

Suburban and semirural development has been by far the predominant pattern since the 1950s, and, according to Lang's book, the even lower-density semirural pattern has overtaken relatively higher-density suburban development.

The solution for long-term investment is to pick the polar opposite of car-dominated sprawl: walkable urban or urbanizing places. Of all real estate types in a metropolitan area, urban development generally has maintained the highest rents, land values, and property values—if there has been a viable urban place in the area. Between 1950 and 1990, as American development sprawled, there have only been a handful of viable urban places in the country: Manhattan, downtown Chicago, San Francisco, Boston—and Main Street Disneyland, which one has to pay to experience. To enjoy urbanity, many Americans go to Europe on vacation.

However, that began to change in the 1990s as downtown after downtown began to revitalize itself. Today, 60 percent of America's downtowns are being revitalized, from San Diego to Baltimore, and from Seattle to Chattanooga. It is probable that by the end of the decade, nearly all of them will be on the way back. Even downtown Detroit is showing signs of life with 20 new rental and for-sale projects on the market. And many suburban downtowns are beginning to urbanize, including Reston and Ballston (both in the Washington, D.C., metropolitan area), Birmingham (Detroit), Pasadena (Los Angeles), Buckhead (Atlanta), Bellevue (Seattle), and many others. Then there are the many smaller-scale places such as Short North (Columbus, Ohio), Nob Hill (Albuquerque), Five Points and Virginia Highland (both in Atlanta), and the student ghettos around most universities that are taking on an ever more urban life and developing a regional draw.

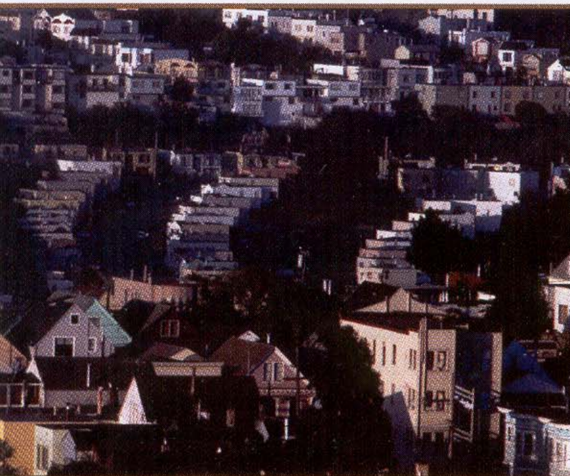
Why has the market changed? There are two major reasons. The baby boomers started to become empty nesters in the 1990s, with many willing to consider a lifestyle that does not include mowing the lawn. Then their Generation X offspring, raised in the suburbs, did what many up-and-coming generations have done: they rejected how they were raised. As a result, they have been flocking to the cities. An easy way to see the evolution of American lifestyles is through television. While the favorite TV shows of the 1950s (*Leave It to Beaver*), 1960s (*The Dick van Dyke Show*), and 1970s (*The Brady Bunch*) were all set in the suburbs, today, the most popular Gen X–oriented shows—*Sex in the City, Friends, Frazier, ER,* etc.—are all set in the city. Hollywood, which does more consumer research than any industry, reflects the desire for urbanity among a major part of the market.

Consumer research also shows that 25 to 40 percent of households in most metropolitan areas want walkable, urban real estate. However, real estate professionals, for the most part, only know how to build and finance suburban and semirural product, creating tremendous pent-up demand for urban product. Because too much competition and overbuilding are the bane of a real estate developer's existence, building urban product is an obvious choice from a market perspective.

Walkable, urban product has an additional advantage: it limits the competitive product to that which is within about 1,500 feet of the front door, or about a five- to ten-minute walk—the limit most people are willing to walk before they will find another mode of travel. In the suburbs, a five-minute drive from a particular rental

apartment project can mean thousands of competitive units, and a 15-minute commute can mean tens of thousands of competitive units. In an urban setting, a five- to ten-minute walk generally translates into only hundreds of competitive units. Avalon Bay Communities, Inc., the New York Stock Exchange–listed apartment real estate investment trust (REIT), locates many of its assets in walkable areas—such as Ballston in northern Virginia, and Stamford, Connecticut—for this reason. This natural limit on competition also eases the fear of overbuilding—though there is no guarantee that it will be eliminated since developers can overbuild any market.

The great advantage of a walkable urban or urbanizing location is that individual projects benefit from an upward spiral of property values. In a suburban location, besides the probability that sprawl will take market demand farther to the fringe, the addition of more houses, strip retail, and office space diminish the value of any location due to increased traffic congestion and pollution, and decreased open space. The more that is built, the less the surrounding assets are worth.



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The opposite happens in walkable urban or urbanizing places: more is better. More townhouses, apartments, retail, and offices put more people on the street, which leads to higher rents and property valuations. The reason it makes sense to hold assets in an urban or urbanizing location for the long term is that when neighboring property is redeveloped, it makes one's own property more valuable. As the downtown or urbanizing suburban downtown grows, the existing assets gain value from the increased activity.

Have patience—and a larger amount of patient equity in the deal. To be around for the long term and enjoy the rising values provided by successful urban development, a developer must have that most rare of commodities: patient equity capital. To have patient capital, a developer must take more control over his or her own destiny by taking more control over the equity in the project. This can be done by slicing the equity pie into several pieces, called tranches, that are divided by the time the equity is committed to the project. Many in the secondary-debt market are familiar with risk tranches, such as the A portion and the B portion of a bundled loan package. Time tranches make the assumption that not all equity is the same—that there are different time horizons to consider. For assets built for the long-term, there are at least three time tranches: short term (one to five years), medium/long term (beyond five years), and long term (beyond 12 years).

Conventional equity investors combine all three portions into one investment, looking to take short-, medium-, and long-term returns. However, most conventional equity investors cannot measure the medium- and long-term returns using current underwriting techniques that employ discounted cash-flow methodologies, such as internal rate of return. That does not stop them from asking for every type of return available, and most developers from giving it to them. Yet, if conventional investors cannot even measure anything except the short term, why not just give them what they treasure and find other investors, including the developer himself or herself, who value the medium and long term? Developers need to take more control of their own destinies; they should not give up what conventional investors do not even value.

Unlike conventional projects, the financial performance of walkable, urban projects allows time tranches to work. The short-term cash flow is not as strong as it is for conventional development, but the medium- and long-term returns are significantly better. However, most underwriters are blinded to the medium- and long-term performance by two factors. The first is the short-term bias of discounted cash flow methodologies—not being able to see beyond years five to seven. The second is that the potential for substantial upside generally is not projected due to its uncertainty. This is the "hope certificate" that many walkable, urban projects can achieve, but it may take time—the enemy of conventional short-term investing.

Investors who can only measure short-term returns and want to be in and out of an investment quickly should occupy the first-tranche

equity position. This also could be considered a mezzanine debt position, though the provider of the construction loan will consider it equity. The first tranche should obtain a preferred return and see its capital returned before that of any other equity provider. In other words, on an income product, the first-tranche equity should receive 100 percent of the cash flow, free and clear, after operating costs, debt service, and reserves. On a for-sale product, the first-tranche equity should receive 100 percent of the sales proceeds after the bank debt has been paid off and until the preferred return is received and capital is returned. In exchange for this preferred position, the total return should be lower than that charged by conventional equity, which generally is between 18 and 30 percent. The first-tranche provider, due to the reduced risk of getting out first, should take a preferred return of 12 to 15 percent and receive *no* residual ownership. Once the first-tranche investor receives its preferred return and initial capital, it is no longer involved in the property.

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Various investors can occupy the second tranche—cash investors, the landowner, the building owner in the case of the redevelopment of an existing property, infrastructure providers (i.e., the municipality), and the developer. They are sharing the residual projectable cash flow after the first tranche is satisfied, and the hope certificate of cash flow and the sharply higher appreciation in value that comes from a project that is in a good location and of high-quality construction. While some of this upside can be projected, the hope certificate financial return generally is beyond projections that a bank will accept. For example, banks and appraisers might project a rental rate only 10 to 15 percent above market for the retail component of a mixed-use project, while those holding the hope certificate might be looking for a higher premium. The second-tranche equity investment is based on the concept of sharing the hope certificate of a project that has more financial upside than can be projected—which is how walkable, urban projects can and do perform.

The third tranche is best assumed by the local municipality, which obtains other compensation from completion of the development. It is conventional practice that a municipality will subsidize an urban project to get it built. For instance, Atlanta-based Post Properties got free land, cash inducements, and a property tax abatement for a number of years from Phoenix, Arizona, for a downtown rental apartment project. It would have been better for the city and Post if this investment had taken the form of a third-tranche equity position for the city in the project. The city could receive a return after the second tranche had received a certain level of financial return or a set percentage of the cash flow during specific years after the certificate of occupancy was granted or some other benchmark was reached. This would give the city an incentive to make an even greater investment and to obtain future funding for other downtown projects because the possibility of a payback would exist. It also would be advantageous to the developer because the city would be even more open to providing assistance—monetary or, probably even more important, nonmonetary—if the project needed help as it was being developed.

A city would invest in a third tranche only if there were indirect reasons to do so, since the direct return is not only far into the future, but, in all probability, will take place during a subsequent administration. The most important indirect reason for a city to invest in the third tranche would be a desire to see property values begin to rise, in the case of a downtown or suburban downtown, or to prime an adjacent section of downtown for revitalization. The third-tranche investment can spark a manyfold financial return because revenues from property taxes, sales taxes, and other taxes will increase not only for the property in which the investment is made, but also for surrounding properties. Tax revenue increases alone in and around a revitalizing downtown that has seen a tremendous upward spiral in values over many years can justify third-tranche investments. Adding direct financial returns from specific third-tranche investments in particular projects just increases the incentive to make these investments.

A major reason to slice the equity into three tranches is to increase the total amount of equity in the project. Conventional developers have been taught to minimize equity and maximize debt in a project because debt is far less costly than equity. Investing for the long term takes exactly the opposite approach—increasing the absolute and the relative amount of equity in the total project capitalization. If the total investment in a conventional suburban strip center is made up of 80 percent debt and 20 percent equity, a long-term investment approach is to shift that ratio to 50 to 60 percent debt and 50 to 40 percent equity. The absolute amount of debt may be the same in both projects, but the increased equity, made up of

the second- and third-tranche equity positions, allows for a number of benefits.

One benefit is that the construction quality of the project can be increased. Because a walkable urban project is meant to generate income for years, rather than just the seven to ten years intended for conventional projects, building for the ages makes economic sense. The second-tranche developer equity ownership likely will only participate in the cash flow after years three to five, so it is to the developer's advantage to build a higher-quality project, using real brick or molded concrete, for instance, instead of plastic and sprayed-on finishes, especially in a walkable urban environment, which users experience more closely and personally than they do conventional drive-by developments.

Also, the increased equity/debt ratio will help developers and their bankers to sleep better at night. This is a psychological benefit that may result in developer nirvana: limited or no personal guarantee of the construction loan.

Backward integrate. Once a developer decides to build a project in a long-term, sustainable location and to provide it with larger amounts of patient equity capital, conventional sources for and approaches to equity, land acquisition, leasing, and sales may not be appropriate. In reinventing how to build, design, locate, and finance, one may have to "backward integrate"—provide one's own sources for equity and leasing and sales. In the eternal business question of whether one should "buy or make," the answer in this situation generally is "make."

The reason for this is that patient equity for the second and third tranche or even for the first tranche is not something found by a conventional equity or mortgage broker. Obtaining unique local tenants for an infill project is not something many retail brokers know much about; generally, they want to deal with big-box national tenants that have strong balance sheets for credit enhancement.

This may mean that developers need to create their own equity sources. These can include joint ventures with cash investors and landowners who share a long-term commitment to creating a special place, or an investment fund created for the first tranche made up of investors who expect a short-term return.

Since developers are far better at selling the vision of a place than a retail broker, they should be responsible for leasing the retail and office space. The best tenants for a walkable place are either local or small regional retailers. However, because many of these retailers have been squeezed out of retail categories, special marketing and financing may be needed to attract and retain them.

Backward integration is probably the last thing a developer wants to do. But to obtain the equity needed and optimal retail tenants for long-term projects, developers may have to do the job themselves.

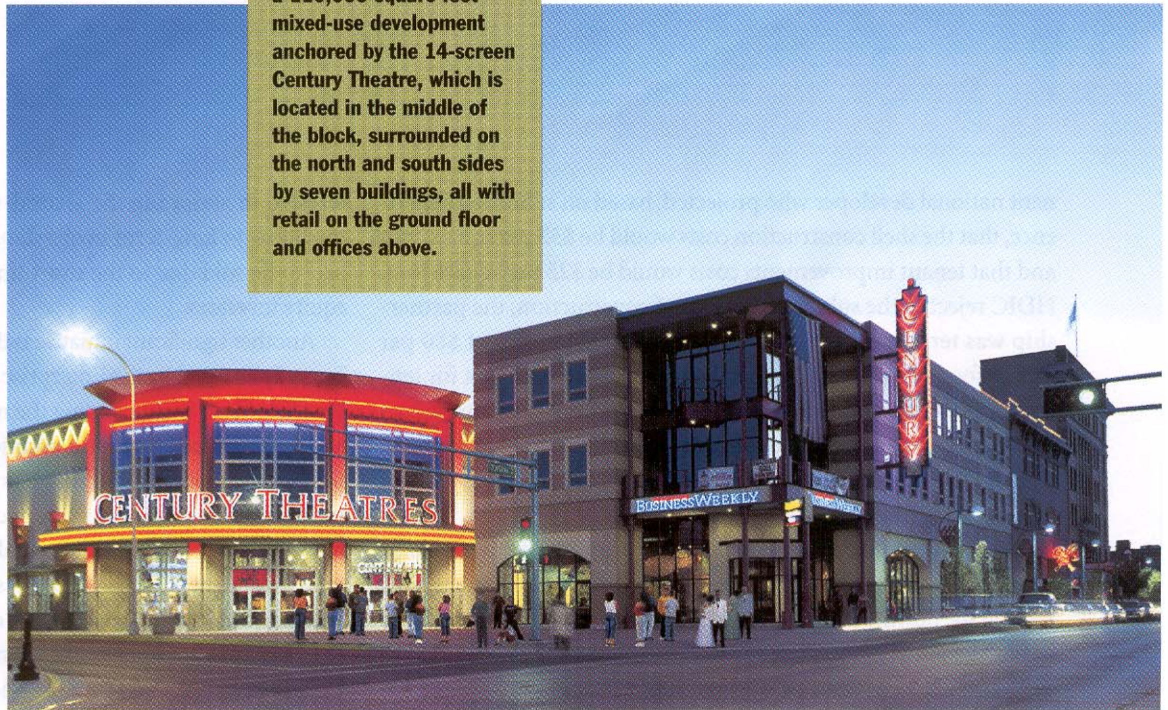
Love one's projects. The strategic plan for most real estate developers revolves around taking one or more product formulas—such as suburban office buildings, entry-level for-sale housing, etc.—and finding the locations within one or more metropolitan markets where these formulas work best. This approach results in cookie-cutter products that can be produced better, faster, and cheaper, but that help make metropolitan areas indistinguishable from one another. It is far better to focus on a specific place and develop particular real estate products as the market demands them, and to develop many products in or and at most two locations within walking distance of one another.

Two advantages of this approach are that one gets to know the inside development opportunities of a specific location, and that one gets to know intimately how best to work with local officials for approvals and with bankers for construction loans. Focused, local development also allows a developer controlling other land in the immediate area to benefit from the rise of property values caused by one's own development efforts. But perhaps the best reason to focus on a specific place is to create a sustainable, special place—something of which a developer can be proud.

The Albuquerque model. The process of redeveloping downtown Albuquerque began in earnest in 1998. Downtown was then a concentration of nine-to-five professional and government offices, banks, hospitals, and the major state utility, together representing about 40,000 jobs. However, there was very little retail—generally workday lunch-oriented places and nightclubs for people in their teens or early 20s. There were 1,400 housing units downtown, most of them rental units, and, with the exception of a Class B, 200-unit complex that maintained high occupancy and relatively high rent levels, most were Class C units. No private sector building permits had been issued in 15 years.

A comprehensive strategy to redevelop the downtown was formulated by representatives from the government, business, neighborhood groups, nonprofit organizations, local retailers, and others. Market and consumer research showed there was pent-up demand for a movie theater, for-rent and for-sale housing, restaurants, and a full-service grocery store. Seventeen task forces, coordinated by the Downtown Action Team, a nonprofit organization, were created to address such issues as homelessness, conversion of one-way roadways to two-way streets, creation of a business improvement district, and development and funding of "park-once" structured parking—strategically located facilities where motorists can park their cars, then get around on foot the rest of the day. A task force also addressed an overhaul of the zoning code for downtown to give developers greater flexibility and to increase the certainty that their projects would be approved, generally within three weeks. By 2003, 85 percent of the strategy's goals had been met.

The job of one of the task forces was to create a catalytic development firm to develop projects the market studies demonstrated were viable but that the conventional real estate development industry would not consider building because they were urban in nature. The downtown development had to be integrated and complex, provide mixed uses, employ multiple transportation solutions, and involve expensive structured parking. Therefore, it presented a much higher risk. A new firm named the Historic District Improvement Company (HDIC) was created, made up of Arcadia Land Company, a for-profit developer; the McCune Charitable Foundation, the largest foundation in the state; and the Downtown Action Team.



The first phase of downtown development in Albuquerque, New Mexico, is Century Theater Block, a 110,000-square-foot mixed-use development anchored by the 14-screen Century Theatre, which is located in the middle of the block, surrounded on the north and south sides by seven buildings, all with retail on the ground floor and offices above.

The capital structure of HDIC was created to ensure a long-term strategy. The McCune Foundation invested $1.4 million in cash from its asset base for 20 percent ownership, as well as $5.6 million in subordinated loans, secured by the various projects undertaken by HDIC. The Downtown Action Team received a 2.85 percent carried, nonvoting interest. Arcadia is the managing member of the limited liability corporation with the remaining 77.15 percent ownership. The capital—both equity and subordinated debt—was patient, expecting returns after five years, while the management of HDIC did not draw any salary or fees unless bank construction loans would allow for development fees at the project level, which were not forthcoming on early projects. The management of HDIC had to cover its overhead from personal savings—part of its patient equity investment.

Trying to start the upward spiral of value creation that can occur in a downtown, HDIC responded successfully to a competitive request for proposals from the city for a 12-block section of downtown. In addition, HDIC bought six strategic buildings on the main street, Central Avenue. With this, HDIC had more than $150 million of potential development—primarily retail, office, and residential space—under control, much of it without using its valuable patient equity capital for acquisition. The development agreement with the city called for a city investment of $8 million in the 12-block redevelopment district, including the land; two parking structures; seven years of tax abatement; and some infrastructure improvements. Unique among comparable agreements in other cities, HDIC agreed to pay back the city for this investment by sharing 25 percent of the HDIC cash flow from the projects in the 12-block district in years six to 12, and 50 percent in years 13 to 20, making the city a third-tranche equity investor. The city's fiscal impact study showed that, combining the cash flow share with the net increase in tax revenues from the projects in the district, the $8 million investment would return $42 million over the 20-year agreement.

HDIC's initial strategy was to be the horizontal developer, focusing on land acquisition, parking, tax abatement, and the overall development plan, then form various joint ventures with building developers for project design, construction, and marketing. Four joint ventures were proposed at various times over the first three years of HDIC's existence, but only one has worked. Three of the proposed joint ventures could not get past the initial feasibility phase and figure out how to develop a financially viable project; the last one is to break ground in 2004 after three years of effort. Despite their concerted efforts, most of the primarily conventional joint venture development partners could not get beyond the need for progressive underwriting of the deals, higher-quality construction, and a roster of unique local and regional tenants rather than national creditworthy tenants. In these three cases, HDIC assumed complete development responsibility—providing just one of many examples of backward integration—and now has three successful projects to show for it.

The first phase of development, the Century Theater Block, included a 110,000-square-foot project made up of a 14-screen theater and retail and office space supported by a 630-car parking garage, for a total development value of $20 million. The mixed-use theater project initially was going to be a joint venture with a promi-

nent national developer who projected, based on suburban experience, that the shell construction costs would be $35 per square foot and that tenant improvements costs would be $25 per square foot. HDIC rejected the suburban quality of construction, the partnership was terminated, and HDIC built the project out at $80 per square foot for construction costs and $50 per square foot for tenant improvements. More than doubling the construction budget required a three-level tranche approach to financing. Half of the total budget was equity, and of this equity, the bulk was patient second- and third-tranche equity.

However, the project's financial performance justified this additional investment even sooner than expected. The prevailing annual retail rents in the downtown in 2000 were $8 to $10 per square foot (triple net) while the Theater Block retail rents were projected to be $18 to $19 per square foot, which made the bank a little nervous. In fact, the retail rents are $22 to $27 per square foot and the office space in the project has obtained the highest rents in the metropolitan area. As a result, the project, at its current 94 percent occupancy, has a debt coverage ratio of 1.9 to 1, much better than 1.25-to-1 ratio banks seek. In addition, the construction loan is nonrecourse. The project has cash flow of $600,000 per year, which would not be the case if the construction quality had been compromised.

A necessary part of the backward integration strategy for HDIC has been to create a source of first-tranche equity. While Fannie Mae's American Community Fund may make this kind of investment in downtown projects, HDIC officials believed that another source was needed. With private real estate fund manager American Ventures Realty Investors of Coral Gables, Florida, HDIC put together the New Mexico Urban Initiative Fund, an infill, smart growth fund for downtowns throughout the state. It eventually will be a $50 million fund raised from the state's permanent funds, banks, and foundations. Banks will receive Community Reinvestment Act credits for the investment. The fund will invest equity representing 10 to 15 percent of total development costs and up to 80 to 90 percent of the required equity. If the fund invests its capital base twice during its eight-year life, it could trigger $800 million to $1 billion of downtown redevelopment throughout the state.

The first successful joint venture is between HDIC and Phoenix Properties Company, a Dallas-based urban development company working throughout the country focusing on infill and mixed-use projects. The project is a $17 million, 174-unit luxury rental apartment building, which will be the highest-end project in the metropolitan area. Phoenix has agreed to be a second-tranche investor/owner, along with HDIC. The first-tranche investor, either Fannie Mae or the New Mexico Urban Initiative Fund, will be in and out of the project in five to seven years. Phoenix Properties was interested in assuming the second-tranche position so as to obtain medium- to long-term ownership. In the past, many of its projects had to be sold due to the short time horizon of their conventional equity investors.

Another significant initiative is the Downtown Albuquerque Civic Trust. Sponsored by the Enterprise, Ford, and McCune foundations, the Civic Trust is anticipating the need for affordable housing, artist and commercial space, and additional parks as the downtown becomes gentrified. While affordability is not a problem at the moment, revitalized downtowns quickly become unaffordable for most people, the result of the upward spiral of value creation. Such gentrification is sought by developers, but social equity and affordable housing advocates view it as an evil that displaces poor households, as well as artists, who are some of the pioneers of downtown revitalization.

The Civic Trust will use a concept known as "value latching." The city's share of the HDIC future cash flow will be dedicated to the Civic Trust, as will additional cash flow made available by HDIC, the current ownership interest of HDIC held by the Downtown Action Team, and other downtown developers. At a minimum, the Civic Trust cash flow will equal 40 percent of the HDIC cash flow until 2021, or $12 million to $15 million. Pledging this cash flow, the Civic Trust will borrow its initial capitalization from foundations, allowing the Civic Trust to implement its business plan for affordable space now, rather than when gentrification moves land and property values so high that the affordability initiative cannot make much of a difference. By latching on to the upward value spiral, social equity and affordable housing advocates will benefit every time a wealthy lawyer buys a loft downtown, because a large percentage of the profit from that transaction will allow the Civic Trust to provide more affordable space.

Helping to start or expand an urban area where the upward spiral of value creation can occur can be extremely profitable, even though discounted cash-flow measures are not sensitive enough to recognize the returns. But this means owning for the long term. And building a special and unique place is even more rewarding. Developing walkable, special places in a downtown, a suburban downtown, or other places can make a real difference in the lives of many people. In this sense, the compensation is priceless. ■

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