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Leading Experts on Sustainability (2009)*

by Charles Lockwood.

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*In his book *The Option of Urbanism: Investing in a New American Dream (2007)*, Leinberger describes how the American dream is expanding to include urban as well as suburban lifestyles and explains how the real estate industry, investors, and lenders must respond by building the higher-density, mixed-use, walkable communities that more and more Americans want for social, economic, and environmental reasons*

>> As volatile oil and gasoline prices, air pollution, and climate change prove, we can no longer afford the post-World War II development patterns created 50 years ago that are dependent on cheap gas. We need to rethink suburbia and other conventional—and wasteful—development. What alternative development patterns do you recommend, and why?

The current development pattern of low-density, car-dependent sprawl is basically modular, focused on single products, relatively simple to develop, and commoditized with floor/area ratios [FAR] of under 0.3.

The alternative development pattern that many people want but have a hard time finding is high-density, multiple-transportation, “walkable urbanity,” which is integrated, mixed use, quite complex to develop, not yet commoditized, with everyday basic services

and maybe even jobs all within walking distance. Walkable urbanity has a FAR ranging from over 1.0 to 10.0 and higher. That means that walkable urbanity has a density that is five to 50 times higher than conventional sprawl development. It is a completely different animal—as different as night from day.

>> Will the general public—particularly SUV-addicted Americans with large exurban homes—accept and support walkable urbanity? Isn't many people's environmental support just a mile wide and an inch deep?

Recent studies show that a third to maybe even half of the households in this country *want* walkable urbanity, and not always for environmental reasons. First, they have realized the built-in flaw of conventional development—*more is less*. As more suburban development takes place, the very reasons people were drawn to the suburbs in the first place—open space, ease of commuting, safety—are degraded.

Second, the market has fundamentally changed. Over 75 percent of U.S. households have no school-age children, so yards and schools have become less important.

Third, many empty nester baby boomers and young gen-Xers find the suburbs sterile. They want the hustle and options of walkable urbanism. As empty nester baby boomers, my wife and I live within blocks of all our basic needs and our workplaces. None of our kids, who are in their 20s and 30s, has yet to even consider a suburban home. They all live and work in cities.

Fourth, there is the commute. Contrary to the car company commercials showing a carefree motorist driving up the *only* road in California that has absolutely no traffic, driving is now a grinding chore. And it's now an increasingly expensive chore because the era of cheap energy is over.

Finally, people are just beginning to realize that removing one car from the household budget frees up as much as \$125,000 that can be applied instead to additional mortgage. The AAA [American Automobile Association] reports that the average annual cost for the care and feeding of a car is \$7,800 after taxes. Drop a car out of the household and, with a 6 percent mortgage, you can buy quite a bit more house. We in the real estate industry should be fighting harder for our customers to switch their household spending from a depreciable asset—the automobile—to the appreciable asset that we sell: real estate.

>> What is the connection between walkable urbanity and environmental and government fiscal sustainability?

Preliminary research shows that reducing the number of car trips, increasing the number of activities that are within walking distance or are transit accessible, and using infrastructure more intensely—building at a much higher density—all of which are components of

walkable urbanity—significantly reduce greenhouse gas emissions. If you construct green buildings within that walkable urbane environment, you reduce greenhouse gas emissions even further. Building walkable places is not the single solution to climate change, but it addresses one of the four major sources of greenhouse gas emissions and it is a necessary component in an overall strategy.

As for government financial sustainability, about 20 years ago, fiscal impact analysis was invented to study the effect of development on local and state finances. A picture is emerging from that research showing that nearly all ten major categories of infrastructure—both publicly provided infrastructure like education, roads, and sewers, as well as privately provided infrastructure like electricity and telecommunications—are being mispriced. The research shows that low-density sprawl has been and continues to be massively subsidized by high-density development and the general taxpayer. This is not a conspiracy; it's just the unintended consequence of countless small decisions made at the federal, state, and local levels. Subsidizing sprawl has been and continues to be *the* major domestic policy of our country.

Getting those subsidies out of the government fiscal system and leveling the playing field is essential. The market must be able to freely express itself. Putting a heavy thumb on the scale in favor of low-density sprawl is not what a capitalist society should be doing.

>> What can be done to overcome Wall Street's and the real estate industry's resistance to sustainable development patterns and building products?

About 15 years ago, Wall Street became the guardian of real estate finance due to the excesses of the 1980s. We borrowed hundreds of billions of dollars—and we forgot to pay much of it back. Following the worst real estate depression since the 1930s, the Federal Reserve only agreed to turn the tap back on for real estate after new watchdogs were in place: the investment banking houses.

Wall Street and commercial banks must trade like for like, so they commoditized real estate into what I refer to as the 19 standard product types. Nearly every one of those product types builds low-density sprawl. If you wanted to build anything other than one of those 19 product types—anything mixed use or higher density—you had to arrange unusual and generally much more expensive financing, if you could do it at all.

Two factors, however, are finally helping to overcome Wall Street's resistance to anything different. First, is the demonstrable financial success of new urbanist development in the suburbs. Second—and probably more important over time—is the turnaround of our downtowns and the rise and success of higher-density mixed-use suburban town centers and lifestyle centers.

Wall Street is loosening the reins a little, especially since real estate has become a proven asset class over the last 15 years. I have always found it ironic that Wall Street

investment bankers would not invest in mixed-use walkable product, but then they'd leave their offices and go home to Greenwich Village or the Upper West Side, which are some of the best examples of walkable urbanity in the country.

>> In working on projects throughout the country as a consultant and developer, what resistance have you found on a government level to green development, and how have you overcome that resistance?

The greatest resistance has come not from government, but from NIMBY [not in my backyard] opposition to high-density development. And the battles are getting even nastier. My development company's associates now go to public meetings with bodyguards. Another developer working on a mixed-use project outside Philadelphia is regularly getting death threats.

Our company has overcome even this level of resistance by working with the community upfront and educating people about the many benefits of walkable urbanity, from an improved quality of life to increased real estate values and tax revenues. And the low-density housing owners adjacent to a walkable place actually get a double benefit: they continue to live in low-density suburban splendor, but within walking distance of urban amenities and services, assuming that measures are taken to curb spillover parking, noise, and cut-through traffic. We also take neighbors on bus tours of comparable new urbanist communities so they can see the benefits of walkable urbanity firsthand.

I believe, however, that the environmental community needs to become an ally in our battle for mixed-use, high-density, walkable urbanity. From an environmental and social perspective, we have a moral imperative to concentrate human settlement patterns, stop car-fueled sprawl, rezone existing transit stations, build greenfield lifestyle centers like Reston Town Center [in northern Virginia], and continue the crucial redevelopment of existing downtowns and suburban town centers. Given the fact that developers are viewed as being only somewhat better than slugs, however, we just aren't very credible in making those arguments. So, the environmental community needs to be on the barricades fighting for walkable urbanity.

>> Do you believe that government mandates on a local, regional, state, and federal level are the only way to bring green development into the mainstream, or can market forces really turn our built environment green?

I don't like government mandates. I do like leveling the playing field by not subsidizing low-density sprawl.

I think the market should be encouraged to satisfy the significant pent-up demand for walkable urbanity. Arthur Nelson of Virginia Tech, one of the country's most highly re-

garded land use analysts, reports in a recently published paper that if the market is given what it wants, the vast majority of all housing permits over the next 20 years will be for attached or small-lot walkable product. For example, in the Washington, D.C., market—which is a bellwether for the future because of the significant impact of its subway system—70 percent of building permits over the past two years have been for attached product. In 2003, the national average selling price per square foot for attached product was higher than for detached product—for the first time ever.

I think the market needs to be unleashed and let the development community satisfy the pent-up demand for walkable urbanity.

Nelson's report also mentions that half of the *existing* large-lot single-family homes, particularly on the fringe of our metropolitan areas, will have a hard time finding buyers.

>> What lessons do other countries offer us for developing environmentally and financially sustainable places? Didn't Prince Charles, for example, give you a walking tour of Poundbury, his experimental village on the outskirts of Dorchester in the county of Dorset, England?

Prince Charles has been a beacon of alternative ways of developing. He asked me to come to England last year to explain the need for "patient equity"—the old-fashioned way we used to finance real estate where a portion of the equity did not expect short-term returns in exchange for the lion's share of the mid- to long-term returns—in the development of walkable urbane places. While I was there, he showed me Poundbury, which is his mixed-use, mixed-income, walkable, and financially very successful development. It was modeled after the project my development partner, Robert Davis, is best known for: Seaside, Florida.

During the tour, Prince Charles asked one of the residents who was walking toward the local pub why he lived in Poundbury. The fellow turned out to be a Yank, and he replied that he loved the intimate, walkable nature of the place, though he only spent half his time there. The other half of the year, he lived in Seaside.

Americans have always gone to European cities for their architectural and development inspirations, but lately the reverse has been true. Most European developers over recent generations have actually followed *us*—to the fringe of their metropolitan areas. The really depressing thing about European fringe development is that it often combines high-density housing with surface parking around the base of the building and big-box retail or suburban office parks that can only be reached by car. It's the worst of all worlds.

Today, most middle-class Europeans aren't able to enjoy daily walks down their own boulevards or avenues because they aren't being built anymore. The traditional European public realm usually can only be found in the expensive historic downtowns that are now reserved for the upper-middle- and upper-income families—and tourists. Europe also has

a pent-up demand for walkable urbanity, but Europe's developers have not yet discovered it outside the historic city.

>> Is it going to be “business as usual” for the real estate industry—particularly long-term investors like REITs [real estate investment trusts]—over the next 20 years? Or should farsighted developers and investors change their plans and activities now?

Obviously, there is a market change taking place, because consumer demand has fundamentally changed. To succeed, I think that farsighted developers and REITs would be wise to recognize some fundamental truths—that great real estate development must employ patient equity, and that we should invest for the long term. That means building higher-quality projects that make places walkable and special.

With conventional development, we drive at 45 miles [72 kilometers] an hour past “billboard architecture” set back 100 feet [30 meters] from the street. With walkable urbanity, however, we stroll right next to the buildings on the sidewalk. So, we have to use real brick, stone, and concrete, not some spray-on synthetic material, if we are going to give the market the quality it demands. Yes, that will cost more money, but the return on investment will more than make up for it, and we can be proud of what we build.

I believe that over the past several decades we have cheapened the built environment—turned it into a seven- to ten-year asset class, rather than the 40-year asset that our grandfathers and all who came before them built—thanks in large part to our exclusive use of net-present-value [NPV] underwriting methodologies introduced by our business schools 50 years ago this year. While it works well for short-term investments, NPV does not measure returns beyond seven to ten years very well. A dollar in year 10 doesn't discount back to anything meaningful in present value terms. So, developers cut construction costs to increase their front-end returns, not caring about mid- to long-term returns.

We have ended up constructing a throwaway built environment that reflects our measurement tools, not our long-term financial interests or our deeper values. Considering that real estate represents about 33 to 40 percent of our nation's wealth, we have not invested that wealth as well as we should have.

>> Where are urban and suburban development going in the next 20 years? Will sustainable development creep forward slowly, or do you see any leaps and bounds coming?

Most medium-sized to large metropolitan areas have a pent-up demand for 15 to 30 region-serving, walkable urbane places right now. Currently, metropolitan Detroit only has three walkable urbane places—Ann Arbor, Birmingham, and Royal Oak. Philadelphia only has four—Society Hill in the Center City, Rittenhouse Square in the Center City,

Manayunk, and University City. Greater Los Angeles only has five region-serving walkable urbane places—Pasadena, Santa Monica, West Hollywood, Farmer’s Market, and Beverly Hills—assuming you don’t count Main Street Disneyland.

Washington, D.C., however, has 16 walkable places right now, up from two just 20 years ago. Of those 16 places, 15 of them are served by the subway, and the one that isn’t, Reston Town Center—the best example of a greenfield walkable urbane place in the country—will be linked to the system soon. Tysons Corner may become walkable someday! Metropolitan D.C. offers residents and business owners an incredible range of choices, from its revived downtown to Dupont Circle, Bethesda, Adams Morgan, Silver Spring, as well as a great variety of suburban and semirural areas.

The pent-up market demand in the United States for walkable urbanity represents trillions of dollars of development over the next 20 years. It’s my experience that you don’t mess with Mother Market or Mother Nature. The market will get what it wants—in spite of the massive subsidies that support sprawl, the zoning that makes mixed-use development illegal, and the NIMBYs—and we will have little choice but to mess less with Mother Nature.

So, I see leaps and bounds coming for sustainable development. This is the most exciting time in my career to be in real estate.