



# SMART GROWTH AND ECONOMIC SUCCESS: BENEFITS FOR REAL ESTATE DEVELOPERS, INVESTORS, BUSINESSES, AND LOCAL GOVERNMENTS

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## Executive Summary

Smart growth development is compact and walkable and provides a diverse range of choices in land uses, building types, transportation, homes, workplace locations, and stores. Such development projects are attractive to private-sector interests because they can find a ready market and compete financially. They appeal to local governments because they can be the building blocks of a growing economy and high-quality, economically sustainable neighborhoods and communities while also helping to create a cleaner, healthier environment. Some of the advantages for developers, communities, and local governments associated with smart growth include:

- **Compact development:** Using land and resources more efficiently and redeveloping old or neglected areas while retaining existing infrastructure can create economic advantages for real estate developers and investors, businesses, and local governments. Compact development can generate more revenue per acre because it uses land more efficiently. It can reduce the costs of land and infrastructure for individual projects and the costs of providing fire and police protection, utilities, schools, and other public amenities. By locating companies closer together, compact development can create a density of employment that increases economic productivity and attracts additional investment.
- **Walkability:** Walkable neighborhoods have well-connected streets and a mix of land uses near each other, making not only walking but also bicycling and transit more convenient and appealing. Projects in walkable neighborhoods command a price premium, earning real estate developers and investors a higher return on investment. Improvements to streets and sidewalks to make them more appealing to pedestrians can benefit local businesses by attracting more customers. In turn, local governments benefit through additional property and sales tax revenue.
- **Range of choices:** People and businesses value places that bring together a variety of activities to create vibrant environments. The demand for such places exceeds the supply. Many people in the two largest demographic cohorts, baby boomers and their children, are particularly interested in lively neighborhoods with their daily needs close by. Communities with access to transit also help people reduce their transportation costs, enabling them to save money or spend more on their homes, entertainment, or other things they value. Changing demographics will likely further increase the demand for smart growth development over the coming decades; developers, investors, businesses, and local governments who respond to these market preferences could reap economic advantages.

The following table summarizes the strategies outlined in this report that can play a key role in creating profitable real estate development, productive economic development, and economically resilient communities.

Strategy	Potential Benefits to Real Estate Developers and Investors	Potential Benefits to Businesses	Potential Benefits to Local Governments
Develop compactly, redeveloping land with existing infrastructure when possible	Reduced costs for land and infrastructure	Increased economic productivity that attracts additional investment	Reduced costs of providing fire and police protection, utilities, schools, and other public amenities
Create walkable places	Increased sales and increased sale prices	Increased economic activity	Higher property and sales tax revenue
Provide a diverse range of choices in land uses, building types, transportation modes, housing, workplace locations, and stores	Increased sales and increased investment value	Increased ability to attract employees and customers	Increased tax base from higher property values and new residents

This report is the first in a series from EPA’s Smart Growth Program designed to inform developers, businesses, local government, and other groups about the benefits of smart growth development. Additional reports will build on this work, exploring how real estate developers and investors can overcome real and perceived barriers to benefit from infill opportunities, how decisions about where to locate will impact the bottom lines of businesses, and why smart growth strategies are good fiscal policy for local governments.

## I. Economic Advantages of Smart Growth Strategies

An increasing number of people are looking for vibrant, diverse places to live and work. They want more housing and transportation options and the ability to walk or bike to meet their daily needs. Businesses want to locate in areas where they can attract customers and the best employees. Local governments are eager to improve their communities to attract and retain residents and businesses while maximizing limited resources available for infrastructure needs and service delivery. Private developers and real estate investors are trying to maximize their returns in a fragile economy with changing market preferences. Smart growth approaches provide opportunities to meet all of these needs by linking economic development efforts to real estate and public infrastructure investments that create places attractive to businesses and people. Ten principles of smart growth were developed by the Smart Growth Network, an organization of diverse partners who work to encourage development that benefits the economy, community, public health, and the environment (see Exhibit 1). Following these principles, smart growth approaches can help create strong local economies, improve the quality of life, and help protect environmental resources—for example, by reducing air pollution from vehicles by encouraging walking, bicycling, or taking transit; building more compactly to protect ecologically sensitive land; or incorporating natural ways of collecting and filtering stormwater runoff.<sup>1</sup>

Many in the business community have long recognized the importance of the link between places that are good for the environment and places with strong economies that help businesses thrive. For example, a 2004 study, *Smart Growth is Smart Business*, found that:

- Quality of life for employees and customers is critical for a successful business.
- Reinvestment in established communities can reduce costs and boost profits for businesses over the short and long terms.

### **Exhibit 1: Smart Growth Principles**

Based on the experiences of communities around the nation, the Smart Growth Network developed a set of ten basic principles to guide smart growth strategies:

- Mix land uses.
- Take advantage of compact building design.
- Create a range of housing opportunities and choices.
- Create walkable neighborhoods.
- Foster distinctive, attractive communities with a strong sense of place.
- Preserve open space, farmland, natural beauty, and critical environmental areas.
- Strengthen and direct development towards existing communities.
- Provide a variety of transportation choices.
- Make development decisions predictable, fair, and cost effective.
- Encourage community and stakeholder collaboration in development decisions.

Source: Smart Growth Network. Smart Growth Principles. <http://www.smartgrowth.org/engine/index.php/principles>.

<sup>1</sup> For more information on the environmental benefits of smart growth strategies, please see: EPA. “Environmental Benefits of Smart Growth.” <http://www.epa.gov/smartgrowth/topics/eb.htm>. Accessed September 28, 2012.

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- Smart growth can be a market opportunity for businesses to gain competitive advantage, tap new customer demand, and increase profits.
- Many businesses want to work with localities, states, and grassroots organizations to encourage smart growth planning in their regions.
- Smart growth projects sell in both strong and weak economies.<sup>2</sup>

More recent work has documented that smart growth strategies can provide economic advantages for businesses, households, local governments, and the nation as a whole.<sup>3</sup> Real estate development and investment decisions based on smart growth approaches can influence job creation and economic competitiveness and generate economic advantages for the private and public sectors. These benefits can be loosely grouped under the themes of competitiveness and growing efficiently.

- **Competitiveness** is critical to real estate developers, businesses, and local government. Places have long competed with each other to attract and retain talented workers, high-quality jobs, and economic investment. Now, major economic changes and demographic shifts are changing the housing and commercial markets. To remain competitive, communities will need places that respond to changing attitudes and behaviors driving people and businesses toward the center of metropolitan areas.<sup>4</sup> Smart growth developments can compete strongly in this changing marketplace by creating places that can meet the increasing market demand for walkable, mixed-use communities.
- **Growing efficiently** is a priority for many communities. The economic downturn that began in 2007 exposed economic vulnerabilities in communities built according to the conventional development pattern of the past 60 years. The current path of many communities is not financially sustainable; overinvestment



Photo Courtesy of Lancaster County Planning Commission

**Exhibit 2:** Smart growth communities are compact, walkable communities with a variety of transportation options. Smart growth approaches have been used to create economic opportunity and improve the quality of life in communities across the country, such as Lancaster, Pennsylvania (pictured here).

<sup>2</sup> National Association of Local Government Environmental Professionals and Smart Growth Leadership Institute. *Smart Growth is Smart Business: Boosting the Bottom Line & Community Prosperity*. 2004.

<http://www.nalgep.org/publications/PublicationsDetail.cfm?LinkAdvID=52733>.

<sup>3</sup> Kooshian, Chuck and Steve Winkelman. *Growing Wealthier: Smart Growth, Climate Change and Prosperity*. Center for Clean Air Policy. 2011. <http://www.growingwealthier.info/index.aspx>.

<sup>4</sup> Urban Land Institute. *What's Next? Real Estate in the New Economy*. 2011. <http://www.uli75.org/whats-next/>.

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in new infrastructure—rather than reinvestment in existing places—uses public money inefficiently and creates long-term financial liabilities.<sup>5</sup> Smart growth strategies have inherent efficiencies that can minimize private and public costs while maximizing property values for homeowners and revenues for local governments. Developers also can realize efficiencies at the project level that can increase their returns and preserve capital to invest elsewhere.

This document shows how smart growth project can provide economic advantages for real estate developers, investors, businesses, and local governments. The private sector can profit from smart growth projects because there is a ready market and these projects compete well financially. Although residential mixed-use projects make up a small share of the real estate market, their numbers grew dramatically between the mid-1990s and the mid-2000s as communities relaxed some zoning barriers and financial markets became more comfortable lending for such projects.<sup>6</sup> Smart growth development adds value to communities, so developers of smart growth projects can build goodwill and strengthen relationships with local governments. Local governments like smart growth projects because they can be the building blocks of a growing economy and high-quality, economically sustainable neighborhoods and communities. Stemming from the smart growth principles, three characteristics are fundamental to producing these economic advantages for developers, investors, businesses, and local governments:

- Compact development.
- Walkability.
- A diverse range of choices in housing, transportation, and other land uses.

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<sup>5</sup> StrongTowns.org. *Curbside Chat*. 2011. <http://www.strongtowns.org/companion-booklet/>.

<sup>6</sup> Tombari, Edward. *Smart Growth Smart Choices Series: Mixed-Use Development*. National Association of Home Builders. 2005. [http://www.nahb.com/fileUpload\\_details.aspx?contentID=39196](http://www.nahb.com/fileUpload_details.aspx?contentID=39196).

## II. Economic Advantages of Compact Development

The compact development pattern that is central to smart growth development uses land and resources more efficiently and concentrates activity close to infrastructure, amenities, and other community resources. The efficient use of land focuses public and private investment in areas where it can take advantage of past infrastructure investments to create economic value by generating higher property tax revenue per acre of land, reducing costs of infrastructure and service delivery, and providing redevelopment and reuse opportunities. The focused investment can also spur business activity and job creation in these locations.

### A. Higher Revenue Generation per Acre of Land

Developing at higher densities uses land more efficiently to generate more revenue, both private and public, per acre of land. For example, research on the relative fiscal productivity of various land uses in Sarasota County, Florida, has demonstrated that compact, mixed-use developments in central locations generate more property tax revenue per acre than single-use developments in more suburban locations.<sup>7</sup> Similar results have been found for communities in Colorado,<sup>8</sup> Montana,<sup>9</sup> and North Carolina.<sup>10</sup> Developers and investors seek to maximize profits when designing projects, but the public sector often has not recognized the economic advantages of higher-density development.<sup>11</sup> Many communities focus on the absolute dollar figure of taxes that large, low-density developments can generate rather than considering the amount of taxes different types of development can generate per acre, the expected return on infrastructure investments, the costs of municipal services, and the impact developments have on surrounding property values. While market feasibility and community character concerns will guide the level of density that is appropriate and achievable in a community, businesses and local governments can benefit from development at higher densities where the market demands it.

### B. Infrastructure and Service Delivery Cost Savings

Extensive research has found that compact development patterns, higher density, mixed uses, and other characteristics of smart growth development can reduce the costs of providing public infrastructure and delivering services.<sup>12,13</sup> Many communities with conventional low-density, single-use development patterns are financially burdened by the cost of maintaining, and ultimately replacing, their existing

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<sup>7</sup> Katz, Peter. "Sarasota's Smart Growth Dividend." *Planning*. American Planning Association. December 2010.

<sup>8</sup> Stroud, John. "Study: Dense Downtowns = Higher Tax Yield." *Glenwood Springs Post-Independent*. July 11, 2011. <http://www.postindependent.com/article/20110712/VALLEYNEWS/110719986&parentprofile=search>.

<sup>9</sup> Kemmick, Ed. "Downtown Development Can Pay Off, Experts Say." *Billings Gazette*. August 30, 2011. [http://billingsgazette.com/news/local/article\\_a086f50b-0bd7-5154-a884-53f1070993a0.html](http://billingsgazette.com/news/local/article_a086f50b-0bd7-5154-a884-53f1070993a0.html).

<sup>10</sup> Langdon, Philip. "Best Bet for Tax Revenue: Mixed-Use Downtown Development." *New Urban News*. September 13, 2010. <http://newurbannetwork.com/article/best-bet-tax-revenue-mixed-use-downtown-development-13144>.

<sup>11</sup> Minicozzi, Joseph. "The Smart Math of Mixed-Use Development." *Planetizen*. January 23, 2012. <http://www.planetizen.com/node/53922>.

<sup>12</sup> Litman, Todd. *Understanding Smart Growth Savings*. Victoria Transport Policy Institute. 2011. [http://www.vtpi.org/sg\\_save.pdf](http://www.vtpi.org/sg_save.pdf).

<sup>13</sup> Muro, Mark and Robert Puentes. *Investing in a Better Future: A Review of the Fiscal and Competitive Advantages of Smarter Growth Development Patterns*. The Brookings Institution. 2004. <http://www.brookings.edu/research/reports/2004/03/metropolitanpolicy-muro>.

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infrastructure given the tax revenue this development generates.<sup>14</sup> Smart growth strategies can help create vibrant and diverse communities in which public infrastructure investments yield returns that cover long-term financial obligations. Several examples illustrate how smart growth strategies can reduce short- and long-term costs of development for local governments:

- An analysis of alternative growth scenarios for the Salt Lake City region showed that the region's modeled growth strategy, which included transportation investments, zoning changes, land preservation policies, and water conservation incentives, could save \$4.5 billion over 20 years in transportation, water, sewer, and utility infrastructure compared to the baseline scenario based on existing plans and trends (see Exhibit 3).<sup>15,16</sup>
- The Maryland Department of Planning estimated the amount of road infrastructure needed between 2010 and 2030 under both the current (as of 2010) statewide growth pattern and a smart growth scenario. The department estimated that the current growth scenario would require about 2.5 times more new road infrastructure than the smart growth scenario, at a cost of \$29 billion.<sup>17</sup>
- An infrastructure cost model analyzing base case and smart growth alternative development patterns in Sacramento, California, found that the smart growth alternative would save \$14 billion.<sup>18</sup> Savings came from reduced service costs for water, sewer, roads, flood control, drainage, and other utilities and from fewer land purchases needed to mitigate the loss of farms and wildlife habitat.



**Exhibit 3:** Salt Lake City's businesses supported expansion of the transit and light-rail system because studies showed that it would reduce public costs of infrastructure and personal transportation costs in the region, expand access to employment, reduce congestion, stimulate economic activity in the commercial core, and create development opportunities along transit corridors.

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<sup>14</sup> StrongTowns.org op. cit.

<sup>15</sup> Federal Highway Administration. "Case Study: Envision Utah." [http://www.fhwa.dot.gov/planning/toolbox/utah\\_overview.htm](http://www.fhwa.dot.gov/planning/toolbox/utah_overview.htm). Accessed May 21, 2012.

<sup>16</sup> MacCleery, Rachel and Jonathan Tarr. "Utah Business Embrace Light Rail" *Urban Land*. December 13, 2011. <http://urbanland.uli.org/Articles/2011/Nov/MacCleeryUtah>.

<sup>17</sup> Choi, Kenneth and Christopher Fricke. "Fiscal Impact Analysis - Analyzing the Effects of Smart Growth on Projected Road Development in 2030." Maryland Department of Planning. 2010. [http://www.mdp.state.md.us/PDF/OurWork/FiscalImpact\\_RoadProjection.pdf](http://www.mdp.state.md.us/PDF/OurWork/FiscalImpact_RoadProjection.pdf).

<sup>18</sup> Sacramento Area Council of Governments. "Initial Blueprint Infrastructure Cost Analysis." *Regional Report*. October 2005. [http://www.sacog.org/regrpt/pdf/2005/10-Oct/OCT\\_RR\\_2005\\_V6\\_5.pdf](http://www.sacog.org/regrpt/pdf/2005/10-Oct/OCT_RR_2005_V6_5.pdf).

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- A study in Rhode Island found that the state could save more than \$1.4 billion over 20 years if its next 20,000 housing units were built in a compact configuration instead of a low-density, large-lot, scattered pattern of development. The study showed savings on roads, schools, and utilities and calculated the benefits of conserving farms and forest lands.<sup>19</sup>
- A comparison of the coverage areas and relative costs of fire protection service between two neighborhoods in Charlotte, North Carolina, found that a fire station in a neighborhood with a well-connected street pattern typical of smart growth development covered 4.5 times more addresses at a much lower annual per capita cost than a station in a less connected area (\$159 versus \$740).<sup>20</sup>
- A cost-simulation model found that increasing lot size can affect the cost of providing water and sewer service, as can increasing distance from existing water and wastewater treatment plants. Annual costs for water and sewer service for households on small lots less than half a mile from an existing water and wastewater treatment plant are less than 25 percent of the costs for households on large lots four to five miles from an existing treatment plant.<sup>21</sup>

Developers also benefit from infrastructure efficiencies in smart growth projects. Higher densities and compact development patterns that require shorter utility runs and less roadway area can translate to significant cost savings on the construction of utilities and streets, costs often paid by developers.

A case-study comparison examined the infrastructure costs of traditional neighborhood development versus conventional suburban development.<sup>22</sup> The study considered variables that drive infrastructure costs, including lot size, product type, residential density, thoroughfare cross section, and thoroughfare network pattern, to quantify and compare the impact on the total infrastructure cost. The study found that infrastructure costs for traditional neighborhood development scenarios were consistently less than conventional suburban development scenarios, ranging from 32 percent to 47 percent less, with the traditional neighborhood development cost savings based principally on density.<sup>23</sup> Lower-density conventional suburban development also has greater land acquisition costs compared to a compact traditional neighborhood development accommodating the same number of homes.

Developers can save money on transit-accessible projects because fewer parking spaces are needed. East River Plaza, a pedestrian-accessible shopping center in the East Harlem section of New York City,

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<sup>19</sup> H.C. Planning Consultants, Inc. and Planimetrics, LLP. *The Cost of Suburban Sprawl and Urban Decay in Rhode Island*. Grow Smart Rhode Island. 1999. [http://www.nbwctp.org/resources/the\\_cost\\_of\\_suburban\\_sprawl\\_and\\_urban\\_decay\\_in\\_ri.pdf](http://www.nbwctp.org/resources/the_cost_of_suburban_sprawl_and_urban_decay_in_ri.pdf).

<sup>20</sup> Congress for the New Urbanism. "Saving Lives and Money: A Charlotte Case Study." *CNU Report: Emergency Response & Street Design*. 2009. <http://www.cnu.org/resources/publications/cnu-report-emergency-response-street-design-2009-2009>.

<sup>21</sup> Speir, Cameron and Kurt Stephenson. "Does Sprawl Cost Us All? Isolating the Effects of Housing Patterns on Public Water and Sewer Costs." *Journal of the American Planning Association* 68(1): 56–70. 2002.

<sup>22</sup> Traditional neighborhood developments have many smart growth characteristics. They typically include a variety of housing types, often on the same block; a mix of uses and amenities; and open spaces such as parks and plazas. Streets are generally narrow with on-street parking, and the street network is in a grid or similarly well-connected arrangement. A conventional suburban development includes different housing types separated from one another based on size and price and arranged in subdivisions of pods on cul-de-sacs and looped streets. Residential uses and nonresidential uses, when present, are separated from each other. Streets are wide, do not have on-street parking, and are arranged in large blocks, cul-de-sacs, and loops, with only a few collector streets to link to main roads.

<sup>23</sup> Ford, Jonathan. *Smart Growth & Conventional Suburban Development: Which Costs More?* Morris Beacon Design. 2009. <http://cppwbe.files.wordpress.com/2011/11/epa-sg-and-conventional-suburban-development-which-costs-more.pdf>.

was constructed with 1,248 parking spaces based on demand forecasts that used data from store locations in auto-dependent outer boroughs. Actual use of the parking structure was measured at less than 40%. A portion of the parking garage was converted to a storage area, and other alternative uses are being explored.<sup>24</sup> A 2010 study of 12 transit-oriented development projects in Santa Clara County, California, found that all provide more on-site parking than residents actually use. About 26 percent of the available parking spaces were unused. Using a national average cost per space, the study estimates that the 2,496 unused parking spaces represent about \$37.4 million in potential construction cost savings.<sup>25</sup>

### C. Redevelopment and Reuse Opportunities

Redeveloping neglected or abandoned properties can provide businesses and local government with new economic development opportunities in the existing development footprint. For example, reusing historic buildings can preserve a neighborhood's character, making it a more attractive place for businesses and people to locate. In addition, redeveloping properties already served by infrastructure and utilities not only saves communities and developers the costs of new infrastructure but also takes advantage of past investment. The increase in surrounding property values that occurs when blighted properties are redeveloped enhances the tax base and public revenues. Property types that present opportunities for economic growth through redevelopment can take a variety of forms:

- **Brownfields** are parcels with real or perceived contamination. Contaminated property can create a barrier to redevelopment because of liability concerns, cleanup costs, and uncertainty about how long cleanup will take. State brownfields cleanup programs<sup>26</sup> can reduce liability concerns and be a cost-effective way for local government to encourage private development. A review of eight studies concluded that, on average, \$1 of public investment in brownfields projects leads to \$8 in total investment (although results from site to site vary considerably). The review also found that when considering public spending on site-specific assessment, cleanup, and preparation only (excluding other public investments in the project), \$1 of public investment leads to an average of \$20 in total investment.<sup>27</sup> A review of six employment studies concluded that, on average, a total public investment in a brownfields project of \$10,000 to \$13,000 creates or retains one job in the community, although the investment needed drops to roughly half that if considering only site preparation costs.<sup>28</sup> This rate of employment generation is at least 2.5 times larger than what the

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<sup>24</sup> Gebhart, Kyle. "Wasteful Parking Supply in East Harlem" *TPD News*. American Planning Association. Spring 2012. [http://www.apa-tpd.org/newsletters/TPD%20Newsletter%20\(Spring%202012\).pdf](http://www.apa-tpd.org/newsletters/TPD%20Newsletter%20(Spring%202012).pdf).

<sup>25</sup> Serafin, Eduardo et al. *A Parking Utilization Survey of Transit-Oriented Development Residential Properties In Santa Clara County*. San Jose State University and Santa Clara Valley Transportation Authority. 2010. <http://www.sjsu.edu/urbanplanning/docs/VTA-TODParkingSurveyReport-Voll.pdf>.

<sup>26</sup> EPA. *State Brownfields and Voluntary Response Programs: An Update from the States*. 2011. [http://epa.gov/brownfields/state\\_tribal/update2011/bf\\_states\\_report\\_2011.pdf](http://epa.gov/brownfields/state_tribal/update2011/bf_states_report_2011.pdf).

<sup>27</sup> Paull, Evans. *The Environmental and Economic Impacts of Brownfields Redevelopment*. Working Paper, Northwest-Midwest Institute. 2008. <http://www.nemw.org/images/stories/documents/EnvironEconImpactsBFReDev.pdf>

<sup>28</sup> Precisely estimating the employment impacts of smart growth projects is challenging, as an ideal study would account for jobs created during cleanup of brownfields, construction of the new development, and any resulting economic activity, as well as account for interactions with nearby neighborhoods and commercial districts. The examples in this report are designed to illustrate that smart growth projects can be an efficient use of resources to promote economic activity and its associated job creation.

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U.S. Department of Housing and Urban Development and the U.S. Small Business Administration expect from program investments.<sup>29</sup> A study of brownfields remediation sites found that housing values near cleaned up sites increased by between 5.1 and 12.8 percent.<sup>30</sup>

- **Greyfields** are economically obsolete shopping malls and other sites that offer large infill redevelopment opportunities. Greyfield sites are typically highly visible properties that reduce the appeal of surrounding communities, so their redevelopment often catalyzes additional projects in the area. Greyfield redevelopment projects can achieve market-competitive sales prices and lease rates for commercial and residential space and dramatically transform entire areas. For example, the Boca Raton Mall in Florida was transformed into Mizner Park, a new town center. The completed project had an assessed value of \$68.3 million in 2002, compared to the old mall's assessed value of \$26.8 million in 1990.<sup>31</sup>



**Exhibit 4:** The mixed-use Mizner Park town center in Boca Raton, Florida, demonstrates how suburban communities can create vital downtowns by redeveloping abandoned shopping centers. Redeveloping the underused Boca Raton Mall into Mizner Park removed a blighted property and helped revitalize the surrounding community.

- **Redfields** are financially distressed properties (real estate “in the red”). Many resulted from the real estate crash of 2007 when developers and lenders went bankrupt, leaving their development projects foreclosed, vacant, or stalled. The Redfields to Greenfields initiative<sup>32</sup> that started in Atlanta is a strategy to address the glut of distressed properties in many communities. Under this strategy, public-private partnerships would buy distressed properties and convert the land to parks or open space. In addition, where appropriate, the partnership could hold portions of the land for future redevelopment when market conditions are more favorable. Although this strategy is still emerging, it could help local governments create jobs, attract new residents and businesses, and enhance property values around the newly created parks and open space. By removing troubled loans from bank balance sheets, the strategy could also help revive the real estate financing market, benefitting

<sup>29</sup> U.S. Department of Housing and Urban Development. *Basically CDBG Guide 2007*.

[https://hudnshelp.info/media/resources/BasicallyCDBG\\_Guidebook.pdf](https://hudnshelp.info/media/resources/BasicallyCDBG_Guidebook.pdf).

<sup>30</sup> Haninger, Kevin et al. “Estimating the Impacts of Brownfield Remediation on Housing Property Values.” *Duke Environmental Economics Working Paper Series*. August 2012. <http://nicholasinstitute.duke.edu/environmentaleconomics/estimating-the-impacts-of-brownfield-remediation-on-housing-property-values/>.

<sup>31</sup> Congress for the New Urbanism. *Malls Into Mainstreets*. 2005. <http://www.cnu.org/mallsintomainstreets>.

<sup>32</sup> Redfields to Greenfields. <http://rftgf.org> Accessed October 21, 2011.

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developers seeking funding for projects. The ability of public parks and open space to increase the value of surrounding property is shown by the Atlanta Beltline project. The announcement of a plan to redevelop an abandoned rail line into a series of public parks, multi-use trails, and a new transit system coincided with an increase in home values within a quarter mile of the project. Homes appreciated as much as 30 percent more than similar properties located farther away.<sup>33</sup>

Strategies for redeveloping and reusing such properties can benefit from state and federal tax programs, such as:

- The **Historic Tax Credit** is a key federal financing tool for historic preservation that can make projects financially viable. Historic preservation and reuse of buildings helps to revitalize older cities and towns, encourage compact development, and save communities' distinctive character and notable architecture. Historic Tax Credit use tends to cluster primarily in cities and rural centers where most historic buildings are located. An evaluation of the economic impact of the Historic Tax Credit suggests that fiscal year 2009 and 2010 projects using the tax credit created (or saved) over 145,000 jobs<sup>34</sup> nationwide and generated \$6.2 billion in income and \$400 million in local government taxes.<sup>35</sup> Many states have their own historic tax credits. In the state of Maryland, there must be spending of at least \$5 by historic property owners for every \$1 invested by the state. An analysis of Maryland's historic tax credit suggested that for every dollar of the commercial credit (excluding credits used for residential structures), the state realized approximately \$8 of total economic output, including wages and sales tax receipts. In addition, every \$1 million in credits was associated with creation of roughly 70 jobs.<sup>36</sup>
- The **New Markets Tax Credit** program administered by the U.S. Department of the Treasury can provide revitalization funding in low-income communities. The \$15 billion program provides private-sector investors (e.g., banks, insurance companies, corporations, and individuals) with federal income tax credits in return for new investments in eligible businesses, ranging from small business startups to real estate development. Revitalization activities and redevelopment projects often fit New Markets Tax Credit qualifications.<sup>37</sup> From 2003 through 2010, the New Markets Tax Credit program invested \$20.9 billion in real estate developments and businesses in low-income communities.<sup>38</sup>

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<sup>33</sup> Immergluck, Dan. "Large Redevelopment Initiatives, Housing Values and Gentrification: The Case of the Atlanta Beltline." *Urban Studies* 46(8):1723-1745. 2009.

<sup>34</sup> Job figures in the report are actually for "job years," defined as one job sustained for one year, which might be filled by multiple people.

<sup>35</sup> Listokin, David and Michael Lahr. *Second Annual Report on the Economic Impact of the Federal Historic Tax Credit*. National Trust Community Investment Corporation and Rutgers University. 2011. <http://www.preservationnation.org/information-center/sustainable-communities/community-revitalization/jobs>.

<sup>36</sup> Cronyn, Joseph and Evans Paull. "Heritage Tax Credits." *The Abell Report*. The Abell Foundation. March 2009. <http://www.abell.org/pubsitems/arn309.pdf>.

<sup>37</sup> EPA. "New Markets Tax Credits." 2005. [http://www.epa.gov/brownfields/tax/nmtxcr\\_0605.pdf](http://www.epa.gov/brownfields/tax/nmtxcr_0605.pdf).

<sup>38</sup> U.S. Department of the Treasury. "CDFI Fund Releases Data Related to NMTC Program Projects Financed Through 2010." [http://www.cdfifund.gov/news\\_events/CDFI-2011-26-CDFI-Fund-Releases-Data-Related-to-NMTC-Program-Projects-Financed-Through-2010.asp](http://www.cdfifund.gov/news_events/CDFI-2011-26-CDFI-Fund-Releases-Data-Related-to-NMTC-Program-Projects-Financed-Through-2010.asp). Accessed May 16, 2012.

## Economic Advantages of Compact Development

Reuse and redevelopment strategies facilitate development, increase the tax base, revitalize neighborhoods, and create jobs. Research shows that public investment in site cleanup, historic preservation, and other revitalization activities can leverage a significant amount of private money,<sup>39</sup> making such strategies attractive for communities with limited resources. These investments typically focus on removing critical barriers so that development can proceed.

### D. Economic Productivity and Job Creation

Compact development enhances economic productivity. Modeling research shows that a doubling of population density increases economic productivity by 2 to 4 percent.<sup>40</sup> This increased productivity is thought to be due to reduced costs of transporting products between businesses, the higher degree of specialization possible in areas with more people, and a faster flow of ideas.<sup>41,42</sup> Research on patent activity in metro areas found that a city with twice the employment density of another will produce 20 percent more patents per capita.<sup>43</sup> Smart growth strategies can foster the conditions that promote innovation, which is critical for competitiveness in the new economy. Local governments can benefit from making smart growth strategies a key element of a job creation strategy. Developers and investors can benefit from investing in compact, walkable communities where growing, innovative companies will want to locate.

An approach to creating high-skilled and high-paying jobs is to support clusters of interrelated firms, industries, and supporting organizations at the regional level. Such clustering within mixed-use districts can foster innovation, strengthen entrepreneurship, enhance productivity, and improve regional economic performance.<sup>44</sup> Smart growth strategies have a role to play in developing and maintaining successful clusters by orienting local and regional land use policy, infrastructure investments, and transportation improvements to help effectively connect workers to industry concentrations. Communities can benefit from linking business development and smart growth strategies because companies are seeking locations that support a concentration of both employees and related businesses.

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<sup>39</sup> Paull op. cit.

<sup>40</sup> Abel, Jaison et al. "Productivity and the Density of Human Capital" *Journal of Regional Science* doi: 10.1111/j.1467-9787.2011.00742.x. 2011.

<sup>41</sup> Ciccone, Antonio and Robert Hall. "Productivity and the Density of Economic Activity." *The American Economic Review*. 86(1):54-57. 1996.

<sup>42</sup> Glaeser, Edward and Joshua Gottlieb "The Wealth of Cities: Agglomeration Economies and Spatial Equilibrium in the United States," *Journal of Economic Literature* 47(4): 983-1028 December 2009.

<sup>43</sup> Carlino, Gerald et al. *Urban Density and the Rate of Invention*. Working Paper, Federal Reserve Bank of Philadelphia. 2006. <http://www.philadelphiafed.org/research-and-data/publications/working-papers/2006/wp06-14.pdf>.

<sup>44</sup> Muro, Mark and Bruce Katz. *The New 'Cluster Moment': How Regional Innovation Clusters Can Foster the Next Economy*. The Brookings Institution. 2010. <http://www.brookings.edu/research/papers/2010/09/21-clusters-muro-katz>.

### III. Economic Advantages of Walkability

For a neighborhood to be walkable, it must be safe, interesting, and easy to walk in, and there must be places people want to walk to. Therefore, walkability requires a mix of land uses close together as well as streets and sidewalks that are more comfortable and appealing for pedestrians. These safer, more interesting, and better-connected streets also make it easier to use public transit and bicycle. Many people prefer to live, work, and shop in walkable places because of these more convenient transportation options. Projects in walkable neighborhoods benefit real estate developers and investors by commanding a price premium. They benefit local businesses by increasing economic activity in the area. Finally, they benefit local governments by producing higher property and sales tax revenue.

#### A. Price Premium

Compact, walkable development projects, especially those with good transit access, have an established record of generating higher rents and sales prices for developers and investors because buyers are willing to pay a premium for them.<sup>45</sup> This premium translates into higher tax revenues for local governments.

Part of the well-established premium for transit-oriented development is generated not just by the access transit provides, but also by the amenities and design of transit-accessible neighborhoods.<sup>46</sup> For example, walkable neighborhoods have higher home prices—one study found that homes with above-average levels of walkability command a premium of about \$4,000 to \$34,000 above homes with average levels of walkability.<sup>47</sup> The walkability premium exists for commercial real estate as well. An analysis of more than 4,200 properties found that walkability was associated with higher property values and higher net operating incomes for offices, retail spaces, and industrial properties.<sup>48</sup>

An extensive body of research explores how transit accessibility is related to property values.<sup>49</sup> A review of the literature found that most studies show a correlation between transit and property values, although the size of the premium varies among studies and across markets:<sup>50</sup>

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<sup>45</sup> Leinberger, Christopher. *The Option of Urbanism: Investing in a New American Dream*. Island Press. 2007.

<sup>46</sup> Bartholomew, Keith and Reid Ewing. "Hedonic Price Effects of Pedestrian- and Transit-Designed Development." *Journal of Planning Literature*. 26(1):18-34. 2011.

<sup>47</sup> Cortwright, Joseph. *Walking the Walk: How Walkability Raises Home Values in U.S. Cities*. CEOs for Cities. 2009. <http://www.ceosforcities.org//research/walking-the-walk/>.

<sup>48</sup> Pivo, Gary and Jeffrey Fisher. "The Walkability Premium in Commercial Real Estate Investments." *Real Estate Economics*. 39(2):185-219. 2011.

<sup>49</sup> Smith, Jeffery and Thomas Gihring. "Financing Transit Systems through Value Capture: An Annotated Bibliography." Victoria Transport Policy Institute. 2010. <http://www.vtpi.org/smith.pdf>.

<sup>50</sup> Fogarty, Nadine et al. *Capturing the Value of Transit*. Center for Transit-Oriented Development. 2008. <http://www.reconnectingamerica.org/resource-center/books-and-reports/2008/capturing-the-value-of-transit-3/>.

## Economic Advantages of Walkability

Property Type	Premium
Single-family home	2 to 32 percent
Condominium	2 to 18 percent
Apartment	4 to 45 percent
Office	9 to 120 percent
Retail	1 to 167 percent

Several studies have found that compact developments featuring open space, trails, and greenways have sold more quickly than similar projects elsewhere and often have a high rate of presold units.<sup>51</sup> An analysis of more than 16,400 sales in Portland, Oregon, for example, found price premiums for homes located within 1,500 feet of the following amenities:<sup>52</sup>

Amenity	Premium
Natural areas	\$10,648
Specialty parks (e.g., playgrounds, skate parks, and golf courses)	\$5,657
Urban parks	\$1,214

While proximity to natural areas could encourage people to locate far from other amenities, these results demonstrate that availability of open space in urban areas can also attract residents, generating higher revenues for developers and investors from the sale of units and higher property tax revenue for local governments. The ongoing shift in consumer preferences (discussed in Section IV.A) will likely intensify demand and further increase this premium.

A portion of the value that transit or other public improvements confer to surrounding properties can help pay for additional resident amenities.<sup>53</sup> For example, tax revenue generated from smart growth projects can fund local improvements such as construction of transit stations, improved sidewalks and streets, open space preservation, or cleanup of contaminated sites. Such projects can have a multiplier effect that benefits both private- and public-sector interests, since smart growth projects can encourage additional development that in turn improves the value of existing development. In Chicago, tax revenue increases generated by redevelopment of the Kinzie Industrial Corridor have been used to fund protected bike lanes, new sidewalks, street lighting, transit station improvements, and pedestrian safety enhancements.<sup>54</sup>

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<sup>51</sup> Ibid.

<sup>52</sup> Shoup, Lily and Reid Ewing. *The Economic Benefits of Open Space, Recreation Facilities and Walkable Community Design*. Active Living Research. 2010. <http://activelivingresearch.org/node/12477>.

<sup>53</sup> Fogarty op. cit.

<sup>54</sup> Saavedra, Jason. "Value Capture: Financing Sustainable Transportation." Grid Chicago. December 22, 2011. <http://gridchicago.com/2011/value-capture-financing-sustainable-transportation/>.

## B. Economic Revitalization

Public projects that make walking safer and more appealing, such as improving sidewalks, reducing traffic speed, adding streetlights or street trees, and beautifying the streetscape, have had a quantifiable benefit on sales, occupancy, and business activity in many communities:<sup>55</sup>

- Lodi, California, undertook a \$4.5 million retrofit of five downtown blocks that widened sidewalks; extended curbs at intersections; and added street trees, lighting, benches, and other streetscape improvements. The city reports that the pedestrian improvements helped to attract 60 new businesses, reducing the vacancy rate from 18 to 6 percent, and increasing downtown sales tax revenues by 30 percent.<sup>56</sup>
- After traffic lanes on Valencia Street in San Francisco’s Mission District were narrowed to accommodate bike lanes and calm traffic, two-thirds of merchants reported improved business and sales. An equal number of merchants indicated they would support additional measures such as tree planting, sidewalk widening, and transit improvements.<sup>57</sup>
- By the late 1990s, Washington, D.C.’s Barracks Row was experiencing a steady decline of commercial activity and had crumbling sidewalks, lack of streetlights, and speeding traffic. A public-private partnership formed in 2003<sup>58</sup> revitalized the community with improvements such as new patterned sidewalks, street trees, streetlights, and traffic signals. This commercial corridor attracted 44 new businesses and 200 new jobs into the neighborhood, more than tripling economic activity measured by sales, employees, and number of pedestrians.<sup>59</sup>
- The streets in downtown West Palm Beach, Florida, were once designed mainly to ensure that cars could quickly travel through without stopping. In 1993, downtown properties were 80 percent vacant, the city was \$10 million in debt,



**Exhibit 5:** Streetscape improvements on Washington, D.C.’s historic Barracks Row helped revitalize the commercial area, significantly increasing economic activity by making the area more appealing for pedestrians and bicyclists.

<sup>55</sup> National Complete Streets Coalition. “Complete Streets Spark Economic Revitalization.” Undated. <http://www.completestreets.org/webdocs/factsheets/cs-revitalize.pdf>.

<sup>56</sup> Ryan, Bill. “Economic Benefits of a Walkable Community.” *Let’s Talk Business*. July 2003. <http://www.uwex.edu/ces/cced/downtowns/ltb/lets/0703ltb.pdf>.

<sup>57</sup> Drennan, Emily. “Economic Effects of Traffic Calming on Urban Small Businesses.” Masters Thesis, San Francisco State University. 2003. [http://www.emilydrennan.org/TrafficCalming\\_full.pdf](http://www.emilydrennan.org/TrafficCalming_full.pdf).

<sup>58</sup> Barracks Row Main Street. “About Barracks Row.” <http://www.barracksrow.org/what/about>. Accessed February 7, 2012.

<sup>59</sup> National Complete Streets Coalition op. cit.

## Economic Advantages of Walkability

and street crime was common. In an effort to revitalize the barren downtown, the city invested in infrastructure to improve the environment for pedestrians. Improvements included enhanced pedestrian crossings, traffic-calming measures, and streetscaping. After these changes, downtown West Palm Beach reached an 80 percent commercial occupancy rate, and property values in the area increased more than six-fold.<sup>60</sup>

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<sup>60</sup> Rush, Natalie et al. "Street Design for Revitalization Case Study No. 16." Undated. West Palm Beach, Florida. [http://www.walkinginfo.org/pedsafe/casestudy.cfm?CS\\_NUM=16](http://www.walkinginfo.org/pedsafe/casestudy.cfm?CS_NUM=16). Accessed February 7, 2012.

## IV. Economic Advantages of a Diverse Range of Choices

Smart growth approaches provide a diverse range of choices—in land uses, building types, transportation modes, housing, workplace locations, and stores. Many consumers and businesses value places where a variety of activities come together to create economically and socially vibrant neighborhoods. Developers, investors, businesses, and local governments that respond by offering variety and choice through smart growth developments can reap economic advantages. The demand is there now, and demographic trends over the coming decades will increase the number of people interested in smart growth neighborhoods. People appreciate the benefits that compact, diverse, and walkable development generate—from lowering combined housing and transportation costs to improving quality of life.

### A. Meeting Market Demand

Smart growth development can provide the homes, shopping areas, and workplaces that people want now and will want in the future, while minimizing environmental and social costs. A 2010 analysis of real estate trends notes that “the two largest demographic groups in the country, the baby boomers and their children—together comprising half the population—want homes and commercial space in neighborhoods that do not exist in anywhere near sufficient quantity.”<sup>61</sup> Several lines of evidence support this assertion and suggest that the market has yet to catch up with changing preferences:

- At least one-third of homebuyers prefer homes in neighborhoods with smart growth characteristics,<sup>62</sup> and future demand for homes in compact neighborhoods could exceed 140 percent of the current supply.<sup>63</sup>
- Surveys in 2004<sup>64</sup> and 2011<sup>65</sup> found that a majority of Americans want short commutes, sidewalks, and places to walk to. Another 2011 study also found that most households want shorter commutes as well as access to a variety of services and more transportation options. The availability of such housing is inadequate to meet current and future demand.<sup>66</sup>
- A 2011 survey found that 56 percent of people aged 55 years or older considered being near more restaurants and shops to be among the most important neighborhood amenities if they were in the market for a new home. Fifty-seven percent of people aged 18-34 considered a shorter commute to be most important.<sup>67</sup>

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<sup>61</sup> Leinberger, Christopher and Patrick Doherty. “The Next Real Estate Boom.” *Washington Monthly*. November 2010. [http://www.brookings.edu/articles/2010/11\\_real\\_estate\\_leinberger.aspx](http://www.brookings.edu/articles/2010/11_real_estate_leinberger.aspx).

<sup>62</sup> Logan, Gregg et al. *The Market for Smart Growth*. EPA. 2007. [http://www.epa.gov/smartgrowth/sg\\_business.htm#p2](http://www.epa.gov/smartgrowth/sg_business.htm#p2).

<sup>63</sup> Robert Charles Lesser & Company. *Measuring the Market for Green Residential Development*. 2008. [http://www.rclco.com/pdf/Measuring\\_the\\_Market.pdf](http://www.rclco.com/pdf/Measuring_the_Market.pdf).

<sup>64</sup> Belden Russonello & Stewart. 2004 *National Community Preference Survey*. Smart Growth America and National Association of Realtors. 2004. <http://www.smartgrowthamerica.org/narsgareport.html>.

<sup>65</sup> Belden Russonello & Stewart. *The 2011 Community Preference Survey*. National Association of Realtors. 2011. <http://www.realtor.org/reports/2011-community-preference-survey>.

<sup>66</sup> Litman, Todd. *Where We Want To Be: Home Location Preferences and Their Implications for Smart Growth*. Victoria Transport Policy Institute. 2011. <http://www.vtpi.org/sgcp.pdf>.

<sup>67</sup> Press Release. “Trulia Optimistic About Long-Term Housing Demand as 80 Percent of Homeowners Plan to Buy Again.” Trulia. September 20, 2011. <http://info.trulia.com/index.php?s=43&item=131>.

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- As of 2011, more than 10,000 real estate websites use the Walk Score tool<sup>68</sup> to help home buyers and renters rate home and apartment listings by the walkability and transit accessibility of the surrounding neighborhood.<sup>69</sup> Walk Score measures the walkability of an address by awarding points based on the distance to a variety of services and amenities.

This shift in preferences is reflected in business decisions, not just consumer choices. Many companies are reconsidering decisions to locate in stand-alone suburban office sites and instead are looking for more vibrant locations with access to restaurants, grocery stores and other shops, homes, and transit.<sup>70,71,72</sup> For example, in Atlanta, BellSouth Corporation decided to consolidate 10,000 employees from 25 different offices into three sites near transit stations. The company encouraged its employees to use transit to get to work. Employee surveys indicated 95 percent satisfaction with the changes.<sup>73</sup> noodleStream.com, which provides safety training, relocated from the northern part of the city to downtown Oklahoma City in 2011.<sup>74</sup> The move made the office more convenient for many employees and provided access to more transportation options. The company is now also within walking distance of many amenities such as restaurants, barber shops, banks, and doctors' offices. A study on the financial performance of commercial properties between 1998 and 2007 shows that a portfolio consisting solely of properties that are near transit, energy efficient, or in areas targeted for redevelopment performed as well as, if not better than, a portfolio of conventional properties.<sup>75</sup>

## B. Responding to Changing Demographics

Demographic trends are helping to drive an increasing preference for more compact, diverse, and walkable development. Considering these trends in light of existing housing stock and consumer preferences, demand for new homes through 2025 might be almost exclusively for multi-family; attached; and small-lot, single-family, detached homes.<sup>76</sup> These demographic trends show:

- The United States will add 32 million households from 2000 to 2025, but only 4 million of these new households will have children. Eleven million of these new households will consist of one person, accounting for 34 percent of the growth.

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<sup>68</sup> Available at <http://www.walkscore.com>.

<sup>69</sup> Walk Score. "10,000+ Sites Now Using Walk Score Professional." July 19, 2011. <http://blog.walkscore.com/2011/07/10000-sites-now-using-walk-score-professional/>.

<sup>70</sup> Stern, Julie. "Flexibility Key to Office of the Future." *Urban Land*. Urban Land Institute. August 2011. <http://urbanland.uli.org/Articles/2011/August/SternOffice>.

<sup>71</sup> Spivak, Jeffrey. "Urban Office Momentum." *Urban Land*. Urban Land Institute. September 2011. <http://urbanland.uli.org/Articles/2011/September/SpivakUrbanOffice>.

<sup>72</sup> Baeb, Eddie. "Corporate Campuses in Twilight." *Crain's Chicago Business*. May 30, 2011. <http://www.chicagobusiness.com/article/20110528/ISSUE01/305289984/craains-special-report-corporate-campuses-in-twilight>.

<sup>73</sup> Fritz, Julie. "A Plan for a Better Atlanta: BellSouth and Carter & Associates improve the Atlanta commute while building new offices." *Southeast Real Estate Business*. 2003. <http://www.southeastrebusines.com/articles/MAR03/cover2.html>.

<sup>74</sup> noodleStream.com. "noodleStream.com's relocation puts Safety right in the Middle of Downtown Oklahoma City." 2011. <http://www.prweb.com/releases/2011/11/prweb8929328.htm>.

<sup>75</sup> Pivo, Gary and Jeffrey Fisher. "Investment Returns from Responsible Property Investments: Energy Efficient, Transit-oriented and Urban Regeneration Office Properties in the US from 1998-2007." Working Paper, Responsible Property Investing Center, Boston College and University of Arizona; and Benecki Center for Real Estate Studies, Indiana University. 2008. <http://www.kelley.iu.edu/bcres/files/research/PivoFisher10-10-08.pdf>.

<sup>76</sup> Nelson, Arthur. "Leadership in a New Era." *Journal of the American Planning Association*. 72(4):393-409. 2006.

## Economic Advantages of a Diverse Range of Choices

- By 2025, only about one-fourth of all households in the United States will have children, and nearly 30 percent will contain only one person.
- More people are turning 65 each year than ever before. One million people will reach 65 in 2012, and two million will do so in 2025.

These trends will likely shape a substantial amount of new development. Up to \$30 trillion will be spent on development from 2000 to 2025—meaning over half of the development on the ground in 2025 will not have existed in 2000.<sup>77</sup> Young adults who are just entering the housing market and older Americans whose needs are changing will make smart growth strategies increasingly important for attracting residents and businesses. Located at roughly opposite ends of the age spectrum, these two groups share some preferences in where they want to live, work, shop, and play.

### Young Adults: Competing for Talent

Young adults, particularly those with college degrees, will be highly sought after as the baby boom generation retires from the labor force and new technologies in the workplace drive demand for new skills and knowledge. Young people tend to be adaptable, mobile, and relatively inexpensive to employ.<sup>78</sup> Their entrepreneurial activities help drive the economic prosperity of cities and regions. Areas with higher concentrations of college graduates tend to have higher local employment growth.<sup>79</sup>

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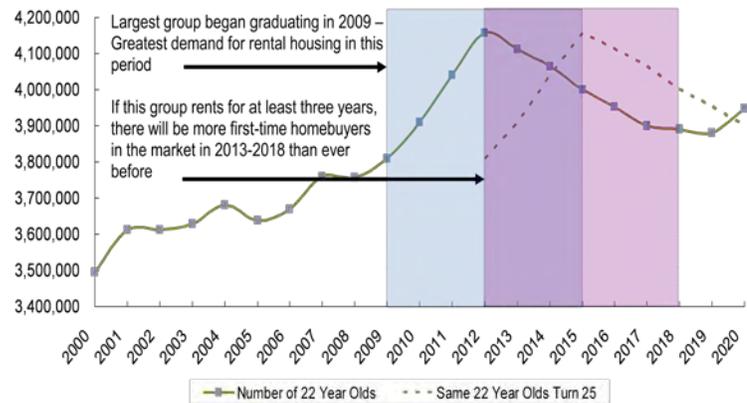
<sup>77</sup> Ibid.

<sup>78</sup> Cortwright, Joseph. *The Young and Restless in a Knowledge Economy*. CEOs for Cities. 2005. [http://www.ceosforcities.org/pagefiles/CEOs\\_YNR\\_FINAL.pdf](http://www.ceosforcities.org/pagefiles/CEOs_YNR_FINAL.pdf).

<sup>79</sup> Shapiro, Jesse. "Smart Cities: Quality of Life, Productivity, and the Growth Effects of Human Capital." *The Review of Economics and Statistics*. 88(2): 324-335. 2006.

## Economic Advantages of a Diverse Range of Choices

Young adults have shown a preference for living and working in centrally located neighborhoods. Consumer research suggests that two out of five young adults plan to rent for at least three years, and three out of four plan to live in an urban core. As shown in Exhibit 6, these trends suggest that market demand for new housing in downtown areas could be strong as this generation begins buying houses.<sup>80</sup> Between 2000 and 2009, the number of college-educated 25- to 34-year-olds increased 26 percent in neighborhoods within three miles of central business districts of the nation's large metropolitan regions, while the increase in other parts of these regions was only half that rate. Thirty-six of the 51 metropolitan areas examined showed a trend of more young adults choosing to live close to or in the city core.<sup>81</sup> This analysis suggests that investments in smart growth development can provide an economic development strategy for communities. Centrally located, walkable neighborhoods with parks and other public amenities, lively commercial districts, and public transit can make a region more attractive to young, talented workers.<sup>82</sup>



### Exhibit 6: The Impact of Young Adults on the Housing Market.

Beginning in 2009, the largest group of 22-year-olds began graduating and seeking rental housing. As they seek to buy their first homes, there will be a flush of first-time homebuyers on the market.

NOTE: Number of 22-year-olds is based on birth rates and does not factor in death rates and migration. Data source: Centers for Disease Control and Prevention. Chart courtesy of Robert Charles Lesser & Co.

### The Older Population: Changing Needs

Just as young adults are seeking homes and workplaces in diverse, vibrant areas, older Americans are also seeking places that better fit their changing needs. This shift presents a major market opportunity for developers. As baby boomers enter their retirement years, they will increase demand for senior housing and neighborhoods where older adults can more easily reach amenities, take care of daily needs, and access health care.<sup>83</sup>

The growing number of older Americans also provides an economic development opportunity for communities. Older Americans own more than 70 percent of the financial assets in the United States

<sup>80</sup> Kannan, Shyam. "The Growing Market for Smart Growth: Consumer Demand and Demographic Drivers." Robert Charles Lesser & Co. 2010. [http://www.rclco.com/pdf/Market\\_for\\_Smart\\_Growth.pdf](http://www.rclco.com/pdf/Market_for_Smart_Growth.pdf).

<sup>81</sup> Cortwright, Joseph. *Young and Restless 2011*. CEOs for Cities. 2011. <http://www.ceosforcities.org//research/the-young-and-restless-in-a-knowledge-economy/>.

<sup>82</sup> Cortwright 2005 op. cit.

<sup>83</sup> McIlwain, John. "Suburbs, Cities, and Aging in Place." *Urban Land*. Urban Land Institute. August 2011. <http://urbanland.uli.org/Articles/2011/August/McIlwainAging>.

## Economic Advantages of a Diverse Range of Choices

and control nearly \$9 trillion in net worth, making them a major part of the local economy in the areas they choose to live.<sup>84</sup>

Most older adults prefer to remain in their homes for as long as possible. A 2005 survey found that 89 percent of adults aged 50 and over hoped to remain in their homes as they age.<sup>85</sup> The proportion was even higher among respondents aged 65 and over. However, another survey found that only 51 percent of older adults felt that their home would be able to meet their physical needs “very well” as they age, while 12 percent responded “not well” or “not well at all.”<sup>86</sup> For some, the physical and/or financial requirements of maintaining their homes are a burden. Many older adults cannot or choose not to drive, so getting to stores and services can be difficult in neighborhoods that are far from commercial uses, are not walkable, and lack convenient public transit. Since the baby boomers purchased homes during the peak period of suburban growth, this generation is likely to be particularly vulnerable to the isolation of spread-out, single-use neighborhoods as they age.<sup>87</sup>



**Exhibit 7:** The Mission Creek Senior Community in San Francisco transformed a brownfield into an attractive, mixed-use, low-income senior community. The project includes a public library, 5,000 square feet of ground-floor retail, and adult day care. It is 25 feet away from a streetcar stop, less than a block away from a bus stop, and two blocks from a CalTrain station. These transportation choices make Mission Creek a convenient home for its residents, especially those who cannot or choose not to drive.

Using smart growth strategies to provide development that is compact, diverse, and walkable can offer older Americans the ability to “age in place” (in the same home) or “age in community” if they choose. Many older adults would likely be interested in this option—85 percent agreed in a 2010 survey that if they can no longer live in their home, they would at least like to remain in their community for as long as possible.<sup>88</sup> The Mission Creek Senior Community in the Mission Bay North area of San Francisco

<sup>84</sup> Ball, M. Scott. *Aging in Place – A Toolkit for Local Governments*. Atlanta Regional Commission and Community Housing Resource Center. 2004. [http://www.atlantaregional.com/File%20Library/Local%20Gov%20Services/gs\\_cct\\_agingtool\\_1009.pdf](http://www.atlantaregional.com/File%20Library/Local%20Gov%20Services/gs_cct_agingtool_1009.pdf).

<sup>85</sup> AARP Public Policy Institute. *The State of 50+ America 2006*. 2006. [http://www.aarp.org/money/budgeting-saving/info-2006/fifty\\_plus\\_2006.html](http://www.aarp.org/money/budgeting-saving/info-2006/fifty_plus_2006.html).

<sup>86</sup> Kochera, Andrew et al. *Beyond 50.05: A Report to the Nation on Livable Communities: Creating Environments for Successful Aging*. AARP Public Policy Institute. 2005. [http://www.aarp.org/home-garden/livable-communities/info-2005/beyond\\_50\\_05\\_a\\_report\\_to\\_the\\_nation\\_on\\_livable\\_communities\\_\\_creating\\_environments\\_for\\_successful\\_aging.html](http://www.aarp.org/home-garden/livable-communities/info-2005/beyond_50_05_a_report_to_the_nation_on_livable_communities__creating_environments_for_successful_aging.html).

<sup>87</sup> Nelson op. cit.

<sup>88</sup> Wardrip op. cit.

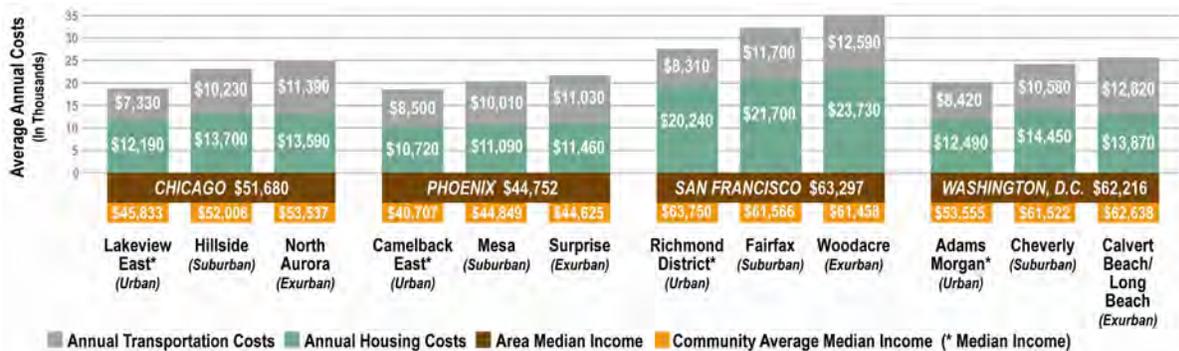
## Economic Advantages of a Diverse Range of Choices

allows seniors, including low-income, disabled, and ill residents, to live in their community and retain mobility given the project's proximity to a variety of transit options (see Exhibit 7).

While many older adults are likely to stay close to home, some will relocate in their retirement years to places that better meet their needs and preferences, just as many young adults are doing. The rural community of Fort Gaines, Georgia, is using smart growth strategies to attract retirees in an attempt to bolster a population that has decreased since the 1990s. The town emphasizes a diversity of housing types, walkable neighborhoods with shopping and services nearby, and access to transit. Fort Gaines has drawn retirees from Florida, Pennsylvania, Virginia, and elsewhere in Georgia. A majority are younger retirees, aged 62 to 65, who often have sizeable savings.

### C. Reducing Housing and Transportation Costs

Smart growth strategies pay close attention to the critical link between housing and transportation and recognize that the location of a community will affect the affordability of both. Although lower land prices generally translate to cheaper housing in outer suburban locations, the higher transportation costs incurred in these areas mean that such homes are often not truly affordable for many households (see Exhibit 8).<sup>89</sup> An index of housing and transportation affordability covering more than 300 U.S. metropolitan areas<sup>90</sup> shows that fewer neighborhoods are considered affordable when transportation costs are included in the calculation and that affordable neighborhoods tend to be compact, walkable, and accessible by public transit. In Portland, Oregon, smart growth policies allow residents to drive less, take shorter trips, and use public transit more often compared to residents of other large metropolitan areas. An estimate of the amount of money Portland residents save on driving compared to the typical resident of other large U.S. metropolitan regions is \$1.1 billion dollars per year, or about 1.5 percent of all personal income earned in the region in 2005.<sup>91</sup>



**Exhibit 8: Average Annual Costs for Housing Plus Transportation.** Transportation costs vary significantly by community even where housing costs and income are similar. Communities in the city and inner suburbs consistently have lower combined housing and transportation costs than outer suburban and exurban communities. Census block group data on median income is averaged to produce a community average median income. Median income is reported for urban locations because they correspond to single block groups. Chart courtesy of Center for Neighborhood Technology.

Building more homes and more housing types in compact, walkable communities with a variety of transportation options would allow more households to reduce their transportation costs. By giving residents the ability spend more on rent or mortgage payments without straining household finances, smart growth strategies might expand the potential customer base for developers.

Even if transportation costs are reasonable, the cost of the home itself is a major constraint for many households. Escalating home prices during the early 2000s left many metropolitan areas with a severe

<sup>89</sup> Center for Neighborhood Technology. *Penny Wise, Pound Foolish*. 2010. <http://htaindex.cnt.org/pwpcf.php>.

<sup>90</sup> Center for Neighborhood Technology. "H + T Affordability Index." <http://htaindex.cnt.org>. Accessed October 21, 2011.

<sup>91</sup> Cortwright, Joseph. *Portland's Green Dividend*. CEOs for Cities. 2007. <http://www.ceosforcities.org/city-dividends/green/special-reports/portland>.

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need for lower-priced housing even after home prices fell.<sup>92</sup> A series of reports documents this unmet demand in the Boston,<sup>93</sup> San Francisco,<sup>94</sup> and Washington, D.C.,<sup>95</sup> regions. The need tends to be greatest near major employment centers, where developable land is scarce. Smart growth strategies allow developers in land-constrained areas to offer different product types and build more compactly to better meet demand.

Smart growth strategies can reduce the per unit cost of building homes, enabling developers to charge lower prices and still earn an acceptable rate of return. Local governments can directly and indirectly influence housing costs through policies and incentives related to land use planning, taxes, development fees, community revitalization, and neighborhood partnerships.<sup>96</sup> But a smart growth strategy's most effective and direct cost reductions might come from its elements that reduce the land requirements and overall construction costs per dwelling unit: higher allowable densities, smaller allowable parcel sizes, and decreased parking requirements.<sup>97,98</sup>

Many companies recognize that they benefit when their employees can afford homes near the workplace. Employer-assisted housing programs across the country promote affordable housing solutions for workers.<sup>99</sup> These programs can offer a variety of benefits, such as homebuyer assistance, rental assistance, education, and counseling. Benefits to the companies can include higher productivity, loyalty, reduced turnover, and lower training and recruitment costs.<sup>100,101</sup> Such programs can complement local government strategies aimed at adding more housing choices accessible to job centers.

Local governments also benefit, because neighborhoods with homes near transit can be more financially stable as residents often have lower transportation costs—costs that are not factored into mortgage underwriting. Several analysts have noted that suburban areas on the outer edges of metropolitan

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<sup>92</sup> Wardrip, Keith. *Housing Landscape 2011: An Annual Look at the Housing Affordability Challenges of America's Working Households*. Center for Housing Policy. 2011. <http://www.nhcopenhousing.org/2011/02/latest-report-from-center-for-housing.html>.

<sup>93</sup> Urban Land Institute. *Priced Out: Persistence of the Workforce Housing Gap in the Boston Metro Area*. 2010. [http://www.uli.org/ResearchAndPublications/TerwilligerCenterforWorkforceHousing/~media/Documents/ResearchAndPublications/Terwilliger/Reports/WH\\_Boston10.ashx](http://www.uli.org/ResearchAndPublications/TerwilligerCenterforWorkforceHousing/~media/Documents/ResearchAndPublications/Terwilliger/Reports/WH_Boston10.ashx).

<sup>94</sup> Urban Land Institute. *Priced Out: Persistence of the Workforce Housing Gap in the San Francisco Bay Area*. 2009. <http://www.uli.org/report/priced-out-persistence-of-the-workforce-housing-gap-in-the-san-francisco-bay-area/>.

<sup>95</sup> Urban Land Institute. *Priced Out: Persistence of the Workforce Housing Gap in the Washington, D.C., Metro Area*. 2009. <http://www.uli.org/report/priced-out-persistence-of-the-workforce-housing-gap-in-the-washington-d-c-metro-area/>.

<sup>96</sup> National Neighborhood Coalition and Smart Growth Network. *Affordable Housing and Smart Growth: Making the Connection*. 2001. [http://www.epa.gov/smartgrowth/pdf/epa\\_ah\\_sg.pdf](http://www.epa.gov/smartgrowth/pdf/epa_ah_sg.pdf).

<sup>97</sup> Litman, Todd. *Where We Want To Be: Home Location Preferences and Their Implications for Smart Growth*. Victoria Transport Policy Institute. 2011. <http://www.vtpi.org/sgcp.pdf>.

<sup>98</sup> Litman, Todd. *Parking Requirement Impacts on Housing Affordability*. Victoria Transport Policy Institute. 2011. <http://www.vtpi.org/park-hou.pdf>.

<sup>99</sup> Homes for Working Families and Metropolitan Planning Council. *Understanding Employer-Assisted Housing: A Guidebook for Employers*. 2007. <http://www.metroplanning.org/uploads/cms/documents/hwfeahfinal.pdf>.

<sup>100</sup> Warren, James. "It Pays to Help Workers Buy a Home." *Bloomberg Businessweek*. June 10, 2010. [http://www.businessweek.com/magazine/content/10\\_25/b4183028448278.htm](http://www.businessweek.com/magazine/content/10_25/b4183028448278.htm).

<sup>101</sup> Ross, Lynn. *Quantifying the Value Proposition of Employer-Assisted Housing: A Case Study of Aurora Health Care*. Center for Housing Policy. 2008. [http://www.nhc.org/media/documents/Quantifying\\_EAH.pdf](http://www.nhc.org/media/documents/Quantifying_EAH.pdf).

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areas, where residents have little choice but to drive to all their destinations, were the most likely to experience home price declines in the aftermath of the real estate market crash of 2007.<sup>102,103</sup> Higher commuting costs, combined with sharp declines in home values (and therefore, owner equity) can make households more susceptible to falling behind on their mortgage and ultimately facing foreclosure. A 2010 study of over 40,000 mortgages in three metropolitan areas found that the probability of default was higher in areas that had more vehicles per household after controlling for income,<sup>104</sup> suggesting a potential benefit for communities that enable lower car-ownership rates by facilitating transit, walking, and biking. Lower foreclosure rates would help protect home values, keep neighborhoods stable, and stabilize the tax base, improving economic resilience. Developers could also benefit from lower foreclosure rates because people cannot buy new homes if they cannot sell their existing homes, and deeply discounted foreclosed homes (or distress sales) depress the new home market.

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<sup>102</sup> Cortwright, Joe. *Driven to the Brink: How the Gas Price Spike Popped the Housing Bubble and Devalued the Suburbs*. CEOs for Cities. 2008. <http://www.ceosforcities.org//research/driven-to-the-brink/>.

<sup>103</sup> Leinberger, Christopher. "The Death of the Fringe Suburb." *The New York Times*. November 25, 2011. <http://www.nytimes.com/2011/11/26/opinion/the-death-of-the-fringe-suburb.html>.

<sup>104</sup> Rauterkus, Stephanie et al. "Location Efficiency and Mortgage Default." *Journal of Sustainable Real Estate*. 2(1)117-141. 2010. [http://www.costar.com/uploadedFiles/JOSRE/JournalPdfs/06.117\\_142.pdf](http://www.costar.com/uploadedFiles/JOSRE/JournalPdfs/06.117_142.pdf).

## V. Conclusion

Compact, diverse, and walkable development can increase property values and property tax revenues, encourage job creation, reduce housing and transportation costs, and create amenities and places that improve residents' quality of life. Real estate developers and investors, businesses, and local governments can use smart growth development as a strategy to maximize their economic advantages while improving the quality of life and creating attractive, healthy communities that help protect the environment.

Additional reports will build on this work, exploring how real estate developers and investors can overcome real and perceived barriers to benefit from infill opportunities, how decisions about where to locate will impact the bottom lines of businesses, and why smart growth strategies are good fiscal policy for local governments.



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