Planning for Economic and Fiscal Health

Christopher Zimmerman
Vice President, Smart Growth America
County Board Member, Arlington Virginia
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This is about how the pattern of development – how we choose to grow – affects a region’s ability to compete economically, to be fiscally sustainable, and to provide efficient and effective public services –

to maintain a high quality of life.
Premise:
The way we **design** and **build** our communities has enormous consequences.
Life in a pod: cul-de-sac America
Life in a pod: cul-de-sac America
Housing as crop circles?
Or, designed for viewing by the gods?
It affects the way we live our lives on a daily basis.
It affects the way we live our lives on a daily basis.
We’ll come back to this.

Now let’s look at what’s driving change for our communities.
3 important factors affecting the future of our communities

1. The market is changing, especially for housing

2. The recipe for economic growth is changing

3. We can no longer afford to use tax money to subsidize inefficiency
1. The changing market
Your community is changing

There are two demographic changes that are driving the market and must drive your decision making.

– The rise of the Millennials.

– The aging of the Baby Boomers.
Demographic change and the labor force
Your community is changing

Households with and without children, 1960-2025
Your community is changing and preferences and the market are following.
Americans Value “Sense of Place,” Whether City, Village, or Rural Town

New urban apartments drawing young professionals

Several new apartment developments in downtown Milwaukee and the east side are drawing young professionals who want an urban lifestyle.

1. Latitude Apartments, southwest corner, N. Farwell Ave. and E. Kenilworth Place, 90 units, opened August 2010
2. 1150 North, northwest corner, E. North Ave. and N. Commerce St., 122 units, proposed
3. 1910 on Water, 1910 N. Water St., 58 units, under construction
4. The Bridge, between N. Milwaukee Ave. and N. 2nd St., 150 units, under construction
5. The North End, between N. Water St. and the Milwaukee River, south of Pleasant St., 83 units, opened in 2009, construction to begin this fall on 155 additional units, completion by spring 2013.
6. The Market, 1621 N. Water St., 55 units, completed

The Washington Times
Detroit’s downtown ‘starting to fight back’
Upwardly mobile lead the way

“The young, smart and mobile are a key demographic that cities across the country are trying to attract.”

Americans Want More Walkable, Sustainable Neighborhoods

Americans’ **ideal** communities have a **mix** of houses, places to walk, and amenities within an easy walk or close drive.

– 77% of Americans want **pedestrian-friendly** features.

– 88% place more value on the **quality** of the neighborhood than the size of the home.

Source: Consumer survey conducted for the National Association of Realtors
Preferences: Housing

Millennials especially are trending away from traditional suburbs

– 47% would prefer to live in a city or a suburb with a mix of houses, shops, and businesses
– 40% would prefer a rural or a small town
– 12% say they would prefer a suburban neighborhood with houses only

Boomers want to age in their community
Preferences
The market: Housing

U.S. real estate supply vs. demand, 2003-2025

- Housing units (in thousands)
  - 2003 housing supply
  - Projected 2025 housing demand
  - Net new units needed

Legend:
- Green: Attached homes
- Yellow: Small lot homes
- Red: Large lot homes
Millennials

They follow lifestyle, not jobs.

Millennials choose where to live before finding a job.
Millennials

Of all college-educated 25- to 34-year-olds – 

64% looked for a job after they chose the city where they wanted to live.

(U.S. Census)
NEW YORK (CNNMoney) -- America's young people just aren't buying cars like they used to.

The share of new cars purchased by those aged 18-34 dropped 30% in the last five years, according to the car shopping website Edmunds.
Preferences: Transportation

Millennials are driving less

- From 2001 to 2009, the average annual number of vehicle-miles traveled by people ages 16-34 dropped 23 percent.  
  (source: National Household Travel Survey)

- 26 percent lacked a driver's license in 2010, up 5 percentage points from 2000  
  (source: Federal Highway Administration)
Preferences: Transportation

Baby boomers turning in their keys
– Using local buses and trains more (source: National Household Travel Survey)
– Bike trips increased 64 percent between 2001 and 2009. (AARP)
Preferences: Transportation

Actually, everyone’s driving less
Preferences: Transportation choices
How will your community meet the needs of millennials and aging boomers in order to improve your competitiveness?
2. The new recipe for economic growth
here are some of the things you need to create in order to build enduring prosperity

skilled labor force

quality of place

physical facilities

Infrastructure

educational opportunities

critical mass of innovation and entrepreneurship

dowement of wealth
Encouraging Job Growth

• Up to **80 percent** of job growth is from *existing businesses*.

• In the new era of specialized, network businesses, *proximity matters*.

• Workplace strategies should focus on *existing concentrations of workplaces* and targeted industries should relate to a city’s *existing assets*.

-- Michael Freedman
Encouraging Job Growth

• The “creative economy”; the “knowledge economy”; the “innovation economy”

• Importance of networking
Shift in work activity → new work environments
The Old Model:
Plenty of Open Space; no Public Space

Typical Suburban Workplace
The New Model: Settings for Interaction, Serendipity
Compact development spurs economic productivity, especially in the “Innovation Economy”*

Doubling of employment density $\rightarrow$ 20% increase in patents per capita†

* Source: “Productivity and the Density of Economic Activity” by Antonio Ciccone and Robert Hall
† Source: “Urban Density and the Rate of Invention” by Gerald Carlino et al.
Why?

• Direct product of proximity?
• The by-product of locations that attract the “creative class”?

Maybe both – but it almost doesn’t matter
Businesses respond to changing preferences

• Across the country corporations are responding to employee preferences and moving to the talent.

• They are choosing to relocate from suburban offices to downtown locations.
Walkable Urban Places

“... walkable urban places and projects will drive tomorrow’s real estate industry and the economy”

- Christopher B. Leinberger
Walkable Urban Places

“. . . walkable urban places and projects will drive tomorrow’s real estate industry and the economy”
“The difference remains startling. Of the 5.5 million square feet of office space under construction in the region, about 4.6 million of it, or 84 percent isn’t just near a Metro station but within a quarter mile of one, according to data from Jones Lang LaSalle, CoStar Group and Delta Associates.”

“... according to Metro, 28 percent of the region’s real estate value is within a half-mile of Metro stations, even though that property constitutes only 4 percent of the land area.”

Walkable Urban Places - Atlanta

“Metro Atlanta, the ‘poster child of sprawl,’ is now experiencing the end of sprawl”

- Leinberger
Walkable Urban Places - Atlanta

Report finding:

From 1992-2000, roughly 13 percent of real estate investment in the region went into Current and Emerging ‘WalkUPs.’

From 2001-2008, that number doubled to 26 percent.

Since 2009, it more than doubled again, reaching 60 percent.
There is a price/value premium for walkable places

Applies to residential real estate -

Above-average walkability:

→ $4,000 to $34,000 more in home sales price

Sources: "Walking the Walk" by Joseph Cortwright, CEOs for Cities and "The Walkability Premium in Commercial Real Estate Investments" by Gary Pivo and Jeffrey Fisher
There is a price/value premium for walkable places

Greater walkability:

→ 1% to 9% increase in commercial property value depending on type; also higher incomes and lower capitalization rates

Sources: “Walking the Walk” by Joseph Cortwright, CEOs for Cities and “The Walkability Premium in Commercial Real Estate Investments” by Gary Pivo and Jeffrey Fisher
Compact development is the market

“The 2011 Community Preference Survey reveals that, ideally, most Americans would like to live in walkable communities where shops, restaurants, and local businesses are within an easy stroll from their homes and their jobs are a short commute away.”

Source: Consumer survey conducted for the National Association of Realtors
Distinctive shopping centers that create a sense of place are succeeding ...

... others are failing.
you are in a **ferocious** competition over **place**
Smart growth is part of an economic development strategy

Customers
- What types of residents and businesses are we trying to attract and retain?

Products
- What types of infrastructure and services do those customers want and need?

Competitive Advantage
- What assets (physical, cultural, brand, etc.) can we leverage to successfully compete in the market?

Source: “The Neighborhood-Centric City” by David Edwards, IBM Global Business Services
How can your community take advantage of the changing nature of the economy in order to create jobs and wealth?
3. The high cost of subsidizing inefficiency
How communities develop affects costs and revenue.
Municipal budgets

- Municipal budgets are feeling pressure
  - State and federal funds are disappearing
  - Costs are escalating
  - Tax bases have shrunk
Municipal budgets

A large portion of municipal budgets go to **infrastructure and services**.

– building and maintaining roads, bridges, sewer and water lines, etc

– providing fire and police services, trash removal, paratransit, school buses, etc
Municipal budgets

• Costs are not just infrastructure related but also operations and maintenance.

• Burden usually falls on taxpayers.
Municipal budgets

• You have to spend on these things.

• You need to ensure that you are spending those funds in the most effective and efficient manner.

• Budgets are not just financial documents – they reveal our goals and what we value.
Development affects costs

When it comes to *infrastructure* costs…

– Compact development development is the best deal.
– Low-density suburban development rarely pays for itself.
– It makes sense to reuse existing infrastructure.
Development affects costs

Building infrastructure to serve new development on the fringe can cost a city up to three times more per acre than urban infill development.
Development affects costs

Compact development offers efficiencies in delivering **services** as well.

– Police and fire departments have less area to cover.

– Fewer miles of road to cover for trash pickup, school buses, and snow removal.
Development affects costs
Development affects costs

**Annualized Per-Capita Life Cycle Costs**
(based on 2-apparatus station)

**Households per Fire Station**

Greater Connectivity leftrightarrow Less Connectivity
Development affects revenue

When it comes to revenue...

- Compact development is the best deal.
- Low-density suburban development generates much less per acre revenue.
- You can increase your property tax base significantly simply by bringing back areas that already exist.
Development affects revenue

Multifamily housing in near an area’s center can generate nine times more revenue per acre than traditional large-lot, single-family housing on the fringe.
Development affects revenue

Municipal property tax yield (per acre) 2011 Raleigh, NC
Development affects revenue

Denser development can carry an entire city financially
Arlington, Virginia

Focused development in two Metro corridors

- About 10% of the County’s land area
- Generates about 50% of tax revenue
- Tax base: 49% commercial, 51% residential
Jurisdiction Tax Rate Comparison
Total Rate Applied to Residential Properties

Arlington: $0.971 (CY 2012 Adopted), $1.021 (CY 2013 Advertised/Proposed)
Alexandria: $0.998 (CY 2012 Adopted), $1.038 (CY 2013 Advertised/Proposed)
Fairfax County: $1.110 (CY 2012 Adopted), $1.131 (CY 2013 Advertised/Proposed)
Fairfax City: $1.020 (CY 2012 Adopted), $1.091 (CY 2013 Advertised/Proposed)
Falls Church: $1.270 (CY 2012 Adopted), $1.330 (CY 2013 Advertised/Proposed)
Loudoun: $1.235 (CY 2012 Adopted), $1.230 (CY 2013 Advertised/Proposed)
Prince William: $1.286 (CY 2012 Adopted), $1.272 (CY 2013 Advertised/Proposed)
Can your community continue to subsidize inefficiencies of development patterns, while not reaping the potential reward?
What does your community need to do to grow a healthy economy?
The big questions

• How can your community meet the needs of millennials and aging boomers in order to improve your competitiveness?

• How can your community take advantage of the changing nature of the economy in order to create jobs and wealth?

• Can your community continue to subsidize inefficiencies of development patterns and not reap the potential reward?
Thank you

Christopher Zimmerman

Smart Growth America
Making Neighborhoods Great Together