

Land Use and Master Planning: Flexibility, Vision and Effective Partnerships Make Great Cities

Panelists:

JAMES J. CURTIS III, CRE
RICHARD A. HANSON, CRE
LYNN M. SEDWAY, CRE

Moderator:

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This edition of Real Estate Issues includes the first of a series of roundtable conversations about hot topics in the field of real estate counseling. The following roundtable discusses issues related to land use and effective practices for building—or rebuilding—cities that strengthen community and are socially responsible. If you would like to participate in or suggest topics for an upcoming roundtable discussion, contact REI Managing Editor Marcie Valerio at mvalerio@cre.org or 312.329.8429.

TRANSIT AND TRANSPORTATION: The saying goes, “Great cities must have great downtowns, and great downtowns must have great transit.” Do you agree? Is it realistic in the United States?

LYNN SEDWAY: I agree that great cities need great mass transportation—I think that’s what people are looking for in various demographic groups.

RICHARD HANSON: Interestingly, we’re building large condominium buildings in downtown Chicago and the problem we have is not enough parking. Most people do not give up their cars. I think you could have a bus pull into the foyer of their condominium and many residents wouldn’t use it. Unfortunately, I happen to be one of those people, and except for going to the airport in a snowstorm or a Cubs game, I never use public transportation.

About the Roundtable Participants



James J. Curtis III, CRE, a principal at San Francisco-based Bristol Group LLC, specializes in industrial, mixed-use and commercial development and investment as well as identifying and turning around the underperforming assets of pension funds and private investors.



Richard A. Hanson, CRE, is a principal at Mesa Development LLC, headquartered in Chicago, with expertise in various aspects of corporate and governmental real estate including feasibility studies, investment analysis, land use, master planning and tenant representation.



Lynn M. Sedway, CRE, an executive managing director in CB Richard Ellis’ San Francisco office, focuses on market and financial feasibility studies, corporate location and economic incentive work, public-private sector counseling and disposition of surplus public land.



Marilee A. Utter, CRE, president of Denver-based Citiventure Associates, has built her company on counseling clients about public-private, mixed-use, urban and transit-oriented project development with an eye toward strategic positioning and master planning.

Land Use and Master Planning

SEDWAY: They wouldn't use it or they also want their cars?

HANSON: Well, your choice. I didn't do a survey, but what I will tell you is that the city of Chicago attempted to reduce parking in these buildings to one parking spot for each condominium, and it didn't work. We're selling parking spots at 1.3–1.4 to one, which means that almost half the owners have two cars, not one. A long time ago the city also tried to limit the vehicular traffic in the city by experimenting with the idea that you couldn't drive a car downtown at certain times of the day and that didn't get any support.

It may be true that great cities can't work without great mass transportation, but people who actually live in the cities still want cars, and they want them nearby, and they want more than one of them. And I don't think that, at least at the condo level we see ...

MARILEE UTTER: At the high level that you're at ...

HANSON: Yes, at the level of luxury condominiums we sell I don't think people take any form of public transportation other than a taxi.

SEDWAY: They do in San Francisco, but they want a car as well.

JAMES CURTIS: They want to be able to go to the grocery store. They want to be able to go to Costco, wherever.

SEDWAY: Or to go away on the weekend.

UTTER: Maybe one of the key points here is that great cities need great transportation—and not just mass transit. Maybe by focusing on transit we're overlooking the fact that it has to be balanced and recognize autos as well.

CURTIS: I think it's got to fit the size. Consider a place like Madison, Wisconsin. Transit there may mean something totally different than it does in San Francisco or Denver or Chicago. And if you're in Bozeman, Montana, you may just need a downtown van service. The city could facilitate movement around the downtown, but residents aren't going to take a bus instead of their pickups into Bozeman.

SEDWAY: I guess I wasn't thinking of a place as small as Bozeman; I was thinking New York, Chicago or Los Angeles. But it's a good point. Well how small? When we talk about transit and the importance of transit for cities, we're at what size?

HANSON: The question is very interesting, but here's another example. Chicago does have great train transportation, but we're still the second-worst traffic city in the nation, surpassed only by New York. Our transportation is worse, at least according to the U.S. Census, than even Los Angeles. More people spend more time in their cars in Chicago than almost anywhere. We have this amazing train system that gets people in and out of the city if they want to use it, but the roads are still clogged.

There's another thing in the works, too: The city, the federal government and the state are spending \$1 billion to connect the two airports—Midway and O'Hare—to downtown Chicago with a subway. That construction is underway, and the whole concept is that you'll be able to go to your airline in downtown Chicago, check your bag, get your boarding pass and send your bags along their way in a train that'll get them to the right airplane. All you've got to do is show up at the airport on time with your ticket to get on the plane. They're also going to have the arrival and departure screens downtown for both airports. It will be interesting to see when it's finished whether it works.

UTTER: That's amazing. That idea has been around for a while, but security has been an issue. I think it was the TSA (U.S. Transportation Security Administration) that put it on the back burner, so I'm delighted to hear it's moving forward again.

HANSON: Yes. Hopefully it will alleviate the 60- to 90-minute drive to the airport in the evening. The city definitely is thinking. This project comes after an attempt to do a light rail system that failed because planners couldn't come up with the money for it.

UTTER: You said earlier that you thought transit systems create density; I'd like to bring land use back into the equation. I think that transit lines are, in a way, organizing principles that guide what we ought to be doing anyway—building more compact communities. And as I think about the Chicago dilemma. You have such a huge area that people need to cover, it would be almost impossible for transit to address all of that. If you don't think about the land use, at least in parallel with the transportation, I don't think it has a chance of making a city great.

SEDWAY: I agree, but in a lot of cities—take New York, Boston or San Francisco—there would be no way to have

Land Use and Master Planning

the number of people living and working in our downtowns without transit.

UTTER: What about places like Cairo, for instance? Places that are great cities but are a disaster in terms of mobility. Lots of people close in. They don't have great transportation; you can barely get around, and look at the commerce that goes on.

SEDWAY: I'm assuming the living conditions are deplorable for most in the downtowns.

UTTER: Then you wouldn't call it a great city?

SEDWAY: No. Another thing I wonder about is the cost of transit. And to really make it effective it has to be comprehensive. What cities are really going to be able to afford it? Are we going to limit the definition of a great city to require transit? Can the Milwaukees of the world be a great city? Can any second-tier cities really have enough money to do this?

CURTIS: It's all a question of how you look at it. Las Vegas has a huge system with automated buses. San Francisco is looking at the system right now to go down Gary Street. It's very, very interesting, and it gives you a different experience than being on a bus. It gives you a sense like you're on a train. There's a bus driver, but it's all computer-operated.

Going back to the question of dealing with this huge human migration: With the demographic shift that's taking place, I think you're going to have a lot of cities and villages that are going to be different, they still need density. The scalability is different. I think the key is going to be for every village and second-, third- and first-tier city to visualize and plan for the community that they're going to be. They have to think about what's realistic. Roseville, California, is a great case study. City planners really thought about the layout of their infrastructure—how to combine uses, how to integrate hard and soft infrastructure.

Look at a city like Pittsburgh where Mayor Tom Murphy had to be realistic about what Pittsburgh was going to be, not what it was, and then how it positions itself. In both instances, they needed bold civic visions and buy-in from a number of community groups.

SEDWAY: And how are they doing?

CURTIS: When you look at Pittsburgh over the last 15 years, it's amazing. And Roseville is amazing how they've gone and planned for senior housing and their arterial. They also have combined their public parks and schools so that schools don't operate just 10 hours a day. They have these public athletic facilities 18 hours a day. There are some great examples of the use of the social capital being deployed in a much more multi-use perspective.

When we consider mixed-use we've totally missed it as an industry when we think we've got mixed-use if we put a hotel, residential and commercial together. I think if we integrate our parks, schools and athletic facilities into commercial and public projects, we can use capital in a much more effective manner.

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SEDWAY: I think those are great points.

UTTER: Yes, no question about it. And I'm interested in how we keep cities from becoming totally homogenized. How they do this planning, thinking about their infrastructure and the culture of the city. You talk about social capital as well as the physical building; how they think about who they are, where their values are and what they want to invest in. That takes a pretty sophisticated planning effort. It's interesting to talk about cities where we think they've been successful at that.

SEDWAY: And when we add—thinking, for example, of Denver's great art museums, and museums that represent different ethnic groups—that's important to making the city distinctive, as do historic renovations.

UTTER: Yes. The historic preservation is a key. I certainly think culture is. And in Chicago, look at the value of Millennium Park. It's a perfect example of integrating uses. It's a bit large scale, but could be done on a much different scale with schools and parks.

SEDWAY: This applies to Pittsburgh, I think. I was interested in Jim's comment because I had heard that

Land Use and Master Planning

Pittsburgh was still suffering from major problems. So I'd like to hear more.

CURTIS: Well I'm not saying Pittsburgh doesn't still have challenges, but there's renewal. The reality is that it's going to be a much smaller city than what it was in the past, but if you're going to be that smaller city with limited resources, where are you going to allocate so that you can begin to regenerate? There are a number of examples in Pittsburgh relative to a downtown and neighborhood—how it reinvested in itself. They basically created a venture capital pool between public and philanthropic to create a VC pool to jump-start things in certain neighborhoods, then moved to different neighborhoods.

What's more important to a city—a great school system or a great transit system?

Chicago is probably the best ongoing example of staying ahead of the curve: bold civic vision, prioritizing infrastructure investments, redeploying its balance sheet by bringing in private money, redeploying the existing public assets and stabilized assets and, then, putting them into new initiatives.

I don't consider Denver an old city but presenters at the recent Urban Land Institute Fall Meeting in Denver really demonstrated how bold metropolitan vision really changed that metropolitan area in just five years.

HANSON: Just spending money doesn't fix schools, though. You do need a good educational environment. The city of Chicago has spent \$4 billion on schools, but in addition you have to have family involvement and dedicated teachers who teach students that they go to school to learn. Students are improving their test scores, but we still have a huge portion of students below national averages. It's much more a motivational problem than a physical problem. By the way, something that's working well here in Chicago is charter schools.

Similar to what you were saying earlier: If you get personal involvement—you get people involved and the community involved—it makes a big difference. To just build buildings has very little effect.

UTTER: To pose the question: What's more important to a city—a great school system or a great transit system?

HANSON: Oh, a great school system.

CURTIS: I'd vote school system.

UTTER: I'd vote school system.

SEDWAY: Yes. Our whole nation needs a great school system. We're in such bad shape. I certainly think it has to be the top priority.

UTTER: And I feel sometimes that we revert to projects because they're so easy to do compared with solving that problem. It's so much easier to build a new building or a new hideaway or a new realign. It's fundable, it's tangible, it's limited and defined. We know how to do it and we do it, and we try to feel good about ourselves. But we're not solving that fundamental infrastructure question as a social problem.

I guess we also look around the country and say, "Where are the great cities?" I think a lot of the cities with significant racial problems are hurting themselves.

SEDWAY: And if anyone can figure the solution to that we can stop doing real estate.

UTTER: I know. Though one of the things I like about real estate is it can indirectly address some of those issues. That's why I get passionate about building diverse places—communities, villages or whatever name that you want to use—because I think when you bring people together and when they want to be there it really does make a difference.

And then my logic gets me back to transit as an organizing principle that makes people look at living in places they wouldn't otherwise. In Houston—and there's a city with social problems as well as physical problems—the transit system they're building is really bringing the city together for the first time.

The planning department, for the first time, is going out to the neighborhoods and saying: "Who do you want to be and what vision do you have for yourself? We'll figure out a way for the transit to further that vision." But it's a city that hasn't done the things you were talking about earlier, Jim. They haven't integrated and now they know they're not competitive. Houston is physically the sixth largest city in the U.S., but far behind in attracting people and jobs. And that's the other thing I think we often overlook in cities.

Land Use and Master Planning

We've been talking a lot about residential entertainment and that's overlooked too much. I think that's one of the keys to Chicago's success, and the city has never lost track of jobs.

THE IMPACT OF KELO: Since the 2005 Kelo decision, America has passed legislation limiting eminent domain in more than 25 states. Even where such restrictive legislation has not been approved, eminent domain for any type of redevelopment is politically unfeasible. What do you see as the function impacts of this on community and economic development? On land values?

UTTER: The Kelo decision and eminent domain are linked to our discussion about regenerating and building cities. I think the U.S. Supreme Court's ruling has fundamentally eliminated that tool. What's your view?

SEDWAY: Well thank goodness Proposition 90 failed in California. What it would have done is eliminate any kind of planning and regulation, not just eminent domain. It's extremely serious and would have jeopardized the governor's infrastructure bond. So I think it cuts across party lines. And we're going to see the son or daughter of Proposition 90 rearing its head with the Howard Jarvis Taxpayers Association's plan to get another initiative on the 2008 ballot. I have yet to meet anybody in our planning or development circles who supported Proposition 90; it's one thing we've all come together on.

UTTER: It's interesting to me that there were several initiatives sort of like Proposition 90 on ballots across the country. And I'm wondering what's fueling that because, as you said, it isn't just anti-eminent domain, it's anti-planning.

CURTIS: I think it's in part that the core communication isn't as good as it could be. A lot of the hard feelings are because of stories like the guy in Oakland who runs an auto repair shop. He has to move and the government is going to pay him for his ground, but he can't duplicate his business.

I think it's my responsibility as a developer to come up with a win-win solution where I find him another space to move into, plus compensate him for moving. One of the problems with eminent domain is I just don't see where it comes up with win-win solutions. Too frequently it comes off like: "The city wants to build the project, and damn all

the people in the way." The technique has been abused and, as a result, we're paying the price for it.

UTTER: The dilemma is it's not just a question of money. I've talked to people who said there's some consideration that they would change the evaluation process so that the appraised value isn't based on the value without the project, but on the value with the project. And I think that's probably appropriate and is coming. But it still doesn't solve the problem of people who are not motivated by economics. I think the conversation often shifts to the small-business owner and overlooks the many people who are going to benefit.

I also agree with Jim that eminent domain has been abused terribly, and we are paying the price. But I think it's a loss of a really important tool. Rich, where do you come down on this issue?

HANSON: I've never tried it, but I agree with Jim. I think it's interesting. You think about the classic situations where people have built things around the one guy who held out. Sometimes it's a downtown project where a 100-year-old restaurant decides it will never sell so you build the building around it. Other times you just decide that it's the person's property and it should remain the person's property.

UTTER: I also see this situation in the transit routing domain world. One of the keys to getting a transit village is getting a land assemblage. So you don't have the option to just build the project anyway; often, the holdout stops the project entirely.

CURTIS: I've experienced that problem in central California, and we may not build the project as a result. But I still respect the guy who has the land in the center of this 45–50 acre project and won't sell. I just said to the community: "That's for you guys to figure out." I said I'd talk with him and try to come up with solutions, but was very clear up front that if it didn't work I'd have no interest in being part of an eminent domain process.

UTTER: That's a good strategy. I think that's giving it back to the community to decide where the value is. Is it with this person or with a larger group? So I admire that. I'll be interested to hear how it comes out.

Land Use and Master Planning

DEMOGRAPHICS: The profound changes in U.S. demographics favor communities with transit, infrastructure, a variety of housing choices, walkable neighborhoods and urban amenities. What role does zoning play in this transformation? Is it keeping up, helping or hurting the transition?

UTTER: As we try to create mixed-use developments, zoning laws, in my opinion, are working. On the other hand, Houston doesn't have zoning, and we usually criticize that. What it means, though, is that the city establishes design guidelines but doesn't dictate the use, which is actually where the thought process is going back to now with the form-based codes and so on. So it's quite liberating and much easier than having to go in and change zoning. Rich, what's your opinion?

HANSON: Zoning is used for many purposes in addition to supporting an existing city plan. I'll give you a personal example.

We're building a 72-story building in a historic district where the zoning was that no building could be any taller than the average in the district. But we proved that the benefit to the entire area was worth an exemption. We just did an analysis, and our two buildings near Millennium Park will create \$350 million in real estate taxes in the next 23 years. That \$350 million of real estate taxes will pay for a lot of city services including public works, parks, schools, etc.

The zoning that had been there forever didn't allow big buildings around Millennium Park, but the city took into account the overall benefit of building the park—and how to create revenues that would offset costs—and revisited those regulations. So I think zoning is very important but should be flexible if something that would improve the community at large comes along. And evaluating those opportunities is sometimes at odds with the underlying urban plan.

But you have to be prepared for some flak when new urban plans trump old ones. In the case of our 72-story building: It's in an area that at the turn of the century was all quaint six- and seven-story buildings, but the area changed and the city built a \$450 million park complex, which naturally attracted new development. So now there's a high-rise where there used to be a six-story building and some residents are upset that the zoning changed. But the project is one of the reasons the city can keep making civic improvements like Millennium Park, so the city decided to approve it for the greater good.

CURTIS: You were part of the solution, Rich.

HANSON: What I'm saying is that you asked what zoning has to do with it, and I think very little. Chicago has a central-area plan—and it's a very interesting plan—but when any individual building goes for zoning approval, the central area plan and how one particular area is zoned at the moment will be balanced with a consideration of how the new building affects the community and the city.

CURTIS: The other way to look at it is that life is a multi-factor equation; and zoning, in a lot of respects, ends up being a single factor. If you only take that one factor into account, you end up with too much of a silo effect. The great thing about Chicago is that you've had a mayor who's been there a while—who has experience and understands how things fit and move back and forth. And though he's not able to dictate like the rest of the world thinks, through his leadership he's able to facilitate change.

UTTER: The irony of that example, I think, is that when you put half a billion dollars into a park it deserves density around it.

HANSON: Absolutely. But we still had half a dozen people on a phone call and they were very upset.

UTTER: Saying you ruined the neighborhood and the property values are going to fall?

HANSON: Yes, and this density is terrible and this was a historic district and so on. It's all in the eyes of the beholder, but I think the economics will remain an important factor in any zoning decision.

INFRASTRUCTURE MAINTENANCE: American infrastructure, largely built shortly after World War II, is starting to age and crumble. Meanwhile, the country is enjoying a healthy growth rate and now requires new infrastructure as well as repair of the old. At the same time, government has less money than ever to address these needs. What are the prospects for public-private infrastructure funding to keep the economy healthy?

CURTIS: I think we're on the verge of being hit with a tsunami of capital for infrastructure in the United States. The cities that will thrive are the ones that can facilitate the movement of capital within major metropolitan areas.

When you look at pension fund allocations in Australia, Canada and Europe, real estate has 6 to 8 percent of allo-

Land Use and Master Planning

cations, maybe 10. Infrastructure investments are entirely separate with anywhere from 9 to 15 percent of the total assets for the pension fund. And in the United States, the U.S. pension funds have zero allocations to infrastructure. Most of these new infrastructure investments have been coming from foreign pension funds.

U.S. cities are going to have to start running themselves as enterprises. They're going to have to look at their balance sheets and sources and uses of money simultaneously to optimize their futures. And they're going to have to work much more to realize their vision through public-private projects. For example, Denver did a great job relative to Stapleton. There are a lot of other examples, but having public infrastructure totally funded by the public and used in only municipal bonds is, in my opinion, going to be old technology.

UTTER: And infrastructure is so important to the viability of cities. You've got to finance. We've done special district funding and have had some tools, but never at the scale I think we're facing now.

CURTIS: But it's an opportunity, especially considering the amount of money they've been able to raise.

UTTER: I'm a little worried that the public sector doesn't know how to negotiate these deals. When I ran the real estate for the city of Denver, I looked at our portfolio and in that old BCG model—the cash flow model of years ago with the dogs, the cash cows and the rising stars; and you're supposed to have a balanced portfolio of anything including real estate—the city, the public sector, had all the dogs.

I think the general opinion was that the private sector makes money, and the public sector doesn't. So if there's a positive cash flow piece of real estate—a parking lot or whatever—the private sector gets to take it. They've cherry-picked public portfolios for anything that makes money, then left the money-losers with the city or the public sector. The deal was, "You take the dogs and we'll pay taxes to fund it."

Then we started cutting back taxes, and now the public sector can't afford all those dogs and they need to have a more balanced portfolio to pay for their operations. So we're starting to see more innovative projects. But the question is: Can they sustain their long-term function? It's kind of like selling assets for short-term. What if the money goes into operating costs instead of long-term

reinvestment and capital? You don't sell capital to fund operating shortages.

CURTIS: If they do that, it's not going to be politically viable and that's why the governor of Indiana basically got his head handed to him. Chicago's mayor, on the other hand, has continued to march on. He's done a much better job right up front selling the neighborhoods, selling the vision. He took the Chicago Skyway, which many would consider to be a public albatross, and improved it. Now the public is ecstatic. They've got better service. It's generating more money. They took those dollars and redeployed them. Most people would have considered the Skyway a dog, but it isn't.

UTTER: They probably had to raise tolls, right?

CURTIS: No, a lot of it was just throughput; they increased the throughput unbelievably. They're able to get money not just on the debt component; they're also able to get equity dollars.

UTTER: Well if there's real value-added through operations efficiency, then it makes sense. I don't know if that's true in a lot of situations.

CURTIS: Recent case studies show great, great promise.

UTTER: One of the other examples is Houston again. The Metropolitan Transit Authority is building five new quarters of transit, and four of them are going to be a bus rapid-transit technology. The agency is putting out one contract for designing, building, operating and maintaining. And transit has got to be a subsidized activity. So I started thinking: "What does the transit agency do? They've basically privatized the whole thing. How do they respond to service demands? How do they respond to what if they don't make their box? And how do you structure a deal like that?" It comes back to the question of what the role of the public sector is when working with the private sector.

I agree with you, Jim, on a lot of those points. I'm just worried that the public sector doesn't know how to negotiate the deals and isn't going to think long-term. There are so many cities that are broke right now that will be tempted to not be as thoughtful as Chicago has been.

CURTIS: And if they aren't, they won't be re-elected or have to face civic or political issues, similar to the governor of Indiana. The people are going to vote with their feet. ■