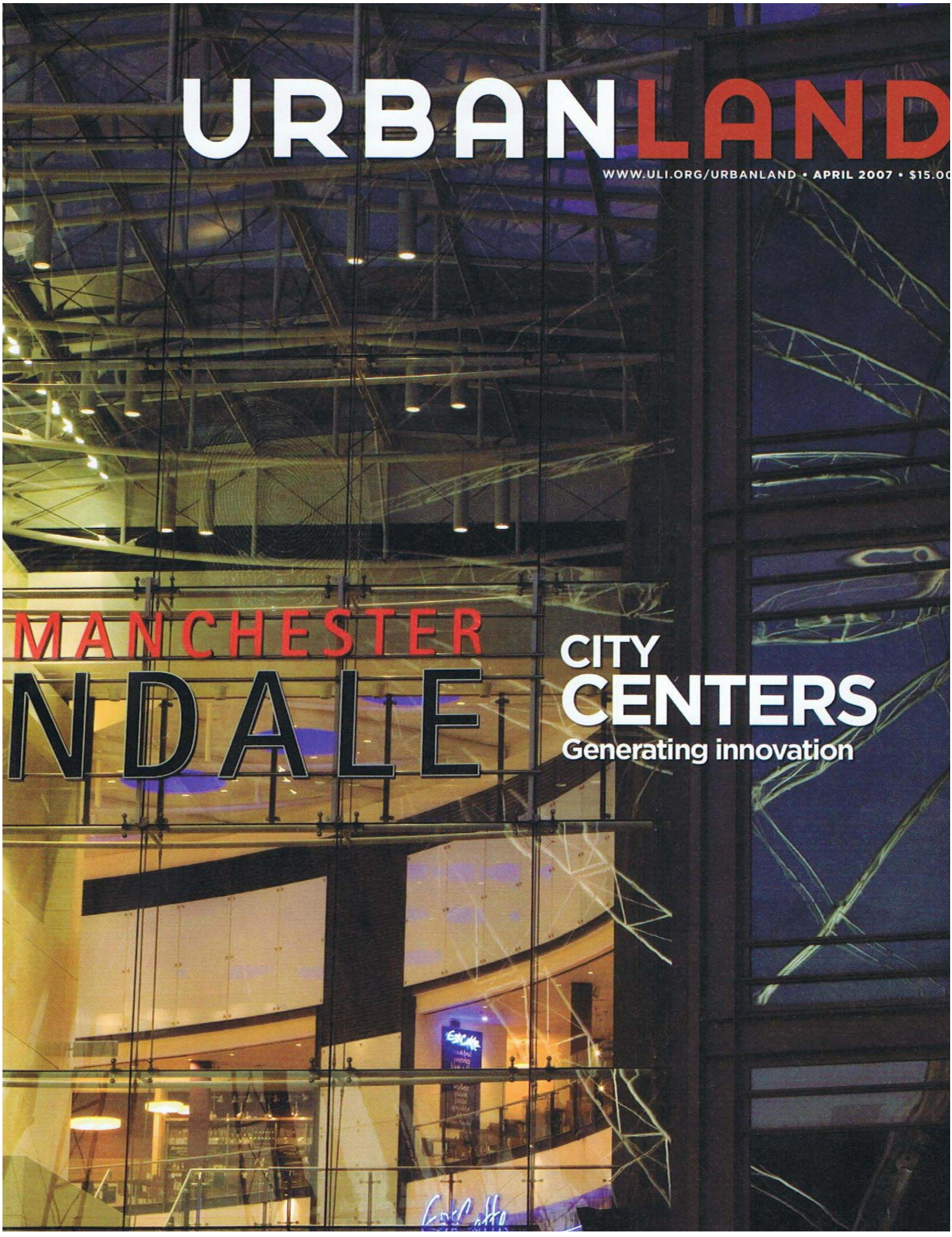
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Revival of the American City

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From Los Angeles to Miami, cities across the country are enjoying a renaissance not seen since the 1920s.

A UNIQUE SET OF CIRCUMSTANCES has created a new American zeitgeist that is reviving urban places, and turning them into thriving communities in which to live, work, and play. The following are ten factors responsible for the resurgence.

Changing Demographics, Baby Boomers, Generation Y, and Smaller Households. Several demographic trends are converging to make downtowns attractive places to live. The first is the graying of America, the so-called baby boomers born between 1946 and 1964. This 43-year-old to 61-year-old cohort currently numbers 78 million. The older of these boomer households have adult children who are not living at home; many of these couples are choosing to downsize and return to more urban places either to buy or rent dwellings that offer the glamour and activities of the city or simply the convenience of urban living.

At the same time, their children, many of them Generation Yers—those born between 1978 and 1996—number 72 million, with the oldest of the group of 11-year-olds to 29-year-olds beginning to form their own households. They also are choosing to rent and buy in urban mixed-use projects, some with financial assistance from their parents. This cohort is looking for residential projects with retail and entertainment amenities nearby.

Finally, a third demographic segment is pushing the revival of downtowns. The so-called "browning of America" movement—immigrants from Hispanic countries, especially Mexico and South America—are being drawn to inner-city areas where they find work in restaurants, hotels, and other leisure and hospitality jobs.

As of a result of these demographic trends, the typical family unit of husband, wife, and child—the prime market for suburban single-family homes—has become a decided minority of only 24.9 percent in American society today. Smaller households and singles living alone now constitute 27 percent of households. Americans tend to have smaller families today. In the late 1950s, the average American woman had 3.5 children. By 2000, this number had declined to 2.0.

Consumer Trends and Lifestyle Preferences. One noteworthy trend in American culture today involves religious preferences and the search for meaning in life. Religiosity has blossomed; today, 85 percent of Americans say they believe in God and 40 percent participate in organized religion weekly. Americans also are searching for meaning in their secular lives. Oftentimes, entertainment, sports, and retail venues can provide a type of meaning and added value in the lives of Americans as they seek activities and experiences to create a sense of community, environment, and home.

The significance of intangibles, such as creating community or meaning in present-day society is brought home in author Daniel H. Pink's book, *A Whole New Mind: Why Right-Brainers Will Rule the Future*. Pink describes skills needed as humanity moves from the Information Age to the Conceptual Age. He posits that the scales of success are tipping away from left-brain abilities based on cold logic and linear thinking toward more creative right-brain abilities, including empathy, inventiveness, conceptualization, and artistic perception. Pink lists six key aptitudes as essential in this new age: design, story, sympathy, empathy, play, and meaning. Extrapolating from this, developers need to provide these components in their projects in order to be successful in today's market. To quote Pink, "People have enough to live, but nothing to live for; they have the means, but not the meaning."

People moving into urban communities are looking for meaning in their environments, from religion to entertainment to shopping to

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art and culture. Americans also are beginning to value their own history. This trend is happening in both the suburbs and the cities. A growing snowball of adaptive use projects is finally changing the blandness of suburbia as the suburbs look to their own unique buildings and neighborhoods with history to explore. Perhaps this is because baby boomers are old enough to realize that history matters.

Payoff from 20 Years of Public Investment and Planning. In the United States, municipalities adopted urban renewal in the 1960s with a series of policies that razed whole downtown districts and destroyed much of the historic fabric of cities in deference to explosive development of the suburbs. The thinking was basically "newer is better" and little thought was given to renovation, adaptive use, or historic preservation. By the 1980s when many American downtowns had been decimated by these policies, the philosophy was seriously rethought and cities began reworking their master plans to promote incremental growth and sustainable development. Mixed use and vertical high-density development, which had always been the backbone of American downtowns, was in vogue again. Major cultural, civic, and infrastructure investments were made, and Jane Jacobs's *The Death and Life of Great American Cities* was required reading for every architecture and urban planning student. The book criticized the previous policy of urban renewal. Jacobs argued for policies based on community—a dense, mixed-use urban aesthetic preserving the uniqueness and the inherent character of individual neighborhoods. Baby boomers who were reared on this philosophy are now running planning departments throughout the United States.

Immigration—Resettling of Undesirable Urban Areas by Industrious Hardworking New Arrivals. Immigrants help to stabilize big city centers, while people moving around the country continue to push out the metropolitan fringes. Big counties depend increasingly on immigration to supplant emigrating native-born populations. For example, Los Angeles County, the nation's largest county, added 118,000 legal immigrants, while losing 83,000 residents to other parts of the nation. In Cook County, home to Chicago, an increase of 50,000 international migrants and a net decrease of 97,000 domestic migrants helped the population remain relatively unchanged at 5.4 million. Legal immigration more than doubled in the 1990s compared with the 1970s.

Between 2000 and 2004, the total U.S. population grew 4.3 percent to about 294 million. While the African American population increased 5.7 percent, the Asian population increased 16.2 percent and the Hispanic population rose 17 percent. Most of this growth is concentrated in urban areas.

A small but growing number of American cities with declining populations are embracing new strategies to attract immigrants in order to replenish shrinking urban neighborhoods, fill labor shortages, and inject greater diversity into their communities. Pittsburgh, Pennsylvania, Louisville, Kentucky, and Albuquerque, New Mexico, are a few examples.

Smart Growth Initiatives, Sustainable Development Movement. Smart growth in the United States is defined as environmentally sensitive land development whose goals are to minimize dependence on automobile transportation, reduce air pollution, and make infrastructure investment more efficient. The movement was started to combat sprawl, a form of urbanization earmarked by leapfrog patterns of development, commercial strips, low density, separated land uses, automobile dominance, and minimal public open space. Cities around the country have adopted the smart growth movement as a framework for urban revival.

Recently the National Center for Smart Growth Research and Education at the University of Maryland published the ten principles of smart growth, all of which support the development and resurgence of American cities. The principles endorse mixed-land uses, compact building design with vertical configuration, housing opportunities and choices, walkable communities, a strong sense of place, a variety of transportation choices, preservation of open space, preservation of existing buildings and communities, cost effectiveness, and collaboration with stakeholders and the community.

All of these principles suggest the increasing need for mixing residential uses with retail, restaurant, leisure, entertainment, and cultural uses. The provision of urban mixed-use developments, while predating the adoption of smart growth by some communities, fits perfectly into the smart growth development philosophy now being adopted by every major city in the United States.

Innovative Financing (TIFs, BIDs, GO Bonds, and Market-Based Financing Solutions). A range of innovative public/private financing tools has evolved in recent years that was unavailable in previous waves of urban revitalization. These tools have resulted in higher-quality, more sustainable development solutions that often have districtwide effects. Most downtowns have taken advantage of tax increment financing (TIF), which is one of the most widely used forms of development finance in reviving downtowns. Forty-nine states now have enabling legislation for TIF, a mechanism to capture the future tax benefits of real estate improvements to pay the present cost of those improvements. TIF can be used to channel funding or tax increment toward improvements in distressed, blighted, or underdeveloped areas where activity would not otherwise occur.

TIF has successfully used the increased property and sales taxes that new development generates to finance costs related to the development of public infrastructure, land acquisition, relocation, demolition, utilities, debt service, and planning costs. Other uses have included parks, parking structures, bridges, water, and building acquisition.

Business improvement districts have now been created in all major U.S. cities. These districts are public/private partnerships created to provide additional services and programs for a specific geographic area. The businesses and owners in a BID pay assessments to provide the money necessary to fund and manage these supplemental services. Safety and security, sidewalk cleaning, landscape maintenance, and visitor information are the most popular services provided, although increasingly BIDs are partnering in real estate ventures as well.

Securitization of the real estate market proved a strong force for commercial development capital in metropolitan America. In the 1990s, these debt instruments secured by commercial real estate and residential units, retail centers, hotels, restaurants, hospitals, and industrial projects brought liquidity to the development market through real estate investment trusts and mortgage-backed securities.

General obligation (GO) bonds are available to finance capital programs if they are approved by voters. If a project does not generate sufficient net operating income to pay back the bond, a property tax override within the city limits is imposed. Several GO bonds have been issued to fund sports facilities in American downtowns. A certificate of participation is similar to a bond as a debt instrument but is tied to the lease payment for the building constructed with the capital raised by the certificate. If the project does not produce an income stream sufficient to cover the debt service, money must be raised or taken from the city's general fund. Mello-Roos financing provides a means by which a municipality can levy a special tax or bond for any purpose including capital expenditure and/or operating subsidy.

Finally, transient occupancy tax (TOT) revenues can be used to finance any regular municipal service, including debt on a building. In some cities, the TOT is used to cover operating deficit on sports facilities.

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In some American cities, citizens have voted increases in specific taxes to pay for development and/or operation of new sports and cultural facilities. In New Orleans, voters approved a sales tax increase to finance the Aquarium of the Americas. In Denver, voters approved an increase in the car rental tax to fund a new arena.

Lack of Investment in Infrastructure (Transportation, Power, Oil and Gas, Education, Utilities) Congestion. From 1950 through 1970, the United States invested heavily in public infrastructure in response to its strong population surge. The nation experienced an economic boom in the 1950s as soldiers returned from war and industry growth continued over the first half century. Federal spending increases and growing bipartisan support furthered investment in infrastructure. Transportation systems, highways, electrical power plants, oil and gas exploration and refineries, water resources, and educational institutions enjoyed unprecedented growth in this 20-year period. After the 1970s, this commitment to infrastructure funding slowed. Capital investment dried up as skepticism toward public spending grew. Fewer highways were developed and environmental concerns stopped the building of new water storage facilities and alternative power plants.

The United States faces a daunting infrastructure challenge with inadequate highway, water, electrical, oil and gas, and educational systems and resources. Commuters now spend hours on freeways driving to and from work. The congestion on highways, especially those surrounding major commercial centers such as Los Angeles and Washington, D.C., is almost impossible to navigate at key times of the day. Balancing jobs and housing in urban centers is one way to solve the commuting problem. With new housing appearing all over downtowns nationwide, many commuters are choosing this alternative over spending hours in cars commuting back and forth to work each day.

Regulations/Approvals at the Fringe (NIMBYs). Smart growth regulations and development policies that reflect the real costs of new development at the fringe are leveling the playing field and leading many developers back to urban areas where governments are encouraging development. Market demand indicates that a large segment of the population prefers to live near a thriving urban center in which residents can enjoy vibrant job markets, short commutes, good pay, and a wide variety of leisure-oriented diversions.

A study completed by Harvard economist Edward L. Glaeser and Joseph Gyourko, a professor of real estate and finance at the Wharton School of Business in Philadelphia, looked at 45 U.S. metropolitan areas and the time it takes a builder to apply for and receive a permit for a "modest-sized, single-family subdivision of less than 50 units." They found that in areas where zoning is strict and approvals are slow, the price increases considerably. Permit lags of six months can add nearly $7 per square foot to the price of a home. Measures of zoning strictness are highly correlated with high housing prices. Almost all of the high-cost metropolitan areas studied are heavily regulated. In some, such as San Jose and Santa Barbara, California, regulations have played a role in tripling housing prices over those of comparable cities elsewhere. High housing prices are driving some developers and many buyers back to America's cities.

Changing Economics of Residential versus Office Development. In many American urban centers, the economics of housing values

compared with office values have led to a shift in development to residential uses rather than office uses. In many locations, the high demand for rental and for-sale housing has resulted in a better return to developers and investors on apartments than on office space. All over American downtowns, historic office and industrial buildings that have laid fallow for years in undesirable districts are being adaptively used and turned into stylish upscale lofts.

Los Angeles, Washington, D.C., Miami, Phoenix, Dallas, lower Manhattan, Atlanta, Boston, and Seattle are just a few American downtowns in which this is happening. Most of these projects are part of larger mixed-use districts that also offer retail, entertainment, restaurants, grocery stores, and, oftentimes, office space. But residential always is the driver. Selling prices ranging from $250 per square foot to $1,000 per square foot for condominiums in some markets provide a huge incentive for developers to offer this product rather than office space. In the past year, the market has been flooded with condominium units, and in some markets, prices are dropping due to oversupply, but this will likely be temporary. There seems to be no slowdown in the winning appeal of residential over office space development in American downtowns.

The Urbanization Trend Worldwide. A century ago, about 10 percent of the world's population lived in cities. That figure has risen to 50 percent and is expected to rise to 75 percent by 2050. Most of the development problems facing American cities are universal, and the inefficiency of traditional suburban development patterns is becoming more apparent in the face of increasing energy costs, decreasing energy availability, accumulating infrastructure needs, traffic congestion, environmental degradation, and global warming. As more urban development patterns emerge in both cities and suburbs, the globalization of the work and influence of architects, planners, and policy makers will likely lead to a growing convergence worldwide of best practices in rebuilding all cities in the coming decades. **ULI**

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