The Business Opportunity for Smart Growth
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Makeover Montgomery – April 16, 2011
RCLCO is a land use economics firm delivering real estate strategies, market intelligence, and implementation assistance.

Practice Areas
- Urban Development
- Community Development
- Economic Development
- Management Consulting

Offices
- Washington, DC
- Los Angeles
- Atlanta
- Austin
- Orlando
AGENDA

Market Impact of Smart Growth

- Response of Private Property Owners
## Projected Total Population Growth Rate by Age

**2010–2020**

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 - 24</td>
<td>-200,000</td>
</tr>
<tr>
<td>25 - 29</td>
<td>Apartments and Condos: Entry-Level and First Move-Up Condos, TH First time SFD</td>
</tr>
<tr>
<td>30 - 34</td>
<td>First time SFD</td>
</tr>
<tr>
<td>35 - 39</td>
<td>1,000,000</td>
</tr>
<tr>
<td>40 - 44</td>
<td>-1,500,000</td>
</tr>
<tr>
<td>45 - 49</td>
<td>-1,900,000</td>
</tr>
<tr>
<td>50 - 54</td>
<td>-400,000</td>
</tr>
<tr>
<td>55 - 59</td>
<td>Luxury townhomes and condos</td>
</tr>
<tr>
<td>60 - 64</td>
<td>Luxury single family TND and clustered, smaller lot single family</td>
</tr>
<tr>
<td>65 - 69</td>
<td>5,400,000</td>
</tr>
<tr>
<td>70 - 74</td>
<td>Senior Living</td>
</tr>
<tr>
<td>75 - 79</td>
<td>4,100,000</td>
</tr>
<tr>
<td>80 - 84</td>
<td>1,500,009</td>
</tr>
<tr>
<td>85+</td>
<td>1,300,000</td>
</tr>
</tbody>
</table>

**SOURCE:** U.S. Census Bureau
> 85% GROWTH IN HOUSEHOLDS WITHOUT CHILDREN
DIFFERENT HOUSEHOLD LANDSCAPE BY 2025

Absolute Change in Households, United States
1980–2005

- Married with children, 1,376,788
- One-person households, 11,825,702
- Nonfamily, 3,416,246
- Other Family, 1,758,377
- Single male with children, 2,165,939
- Single female with children, 4,680,913
- Married, no children, 5,476,979

SOURCE: US Census
GEN Y MAKING ITS MARK TODAY
SHAPING POST-RECESSION PLACEMAKING EFFORTS

RCLCO Consumer Research shows:
- 41% of Generation Y plan to rent for at least three years
- 77% of Generation Y plan to live in an Urban Core

Largest group began graduating in 2009 – Greatest demand for rental housing in this period

If this group rents for at least three years, there will be more first-time homebuyers in the market in 2013-2018 than ever before

NOTE: Number of 22-year olds is based upon birth rate and does not factor in death rates and migration.
SOURCE: U.S. Centers for Disease Control and Prevention
GEN Y WILL PAY FOR WALKABLE, MIXED-USE
CHALLENGE IS PROVIDING PRODUCT THEY CAN AFFORD

- Driven by convenience, connectivity, and a healthy work-life balance to maintain relationships
- **1/3 will pay more** to walk to shops, work, and entertainment
- 2/3 say that living in a walkable community is important
- More than 1/2 of Gen Y would trade lot size for proximity to shopping or to work
- Even among families with children, one-third or more are willing to trade lot size and “ideal” homes for walkable, diverse communities

SOURCE: RCLCO Consumer Research
Summary of National Case Study Data – Transit Premiums on Land Values

- **Apartment**
  - Light Rail Apts: 40%
  - BRT Apts: -20%
  - Light Rail Condo: 0%
  - BRT Condos: 0%

- **Condo**
  - RCLCO DC - MF/Condo Transit Premium: 20%

- **Office**
  - Light Rail Office: 80%
  - Commuter Rail Office: 100%
  - BRT Office: 20%
  - RCLCO DC - Office Transit Premium: 20%

**TRANSPORT INVESTMENTS CREATE VALUE**
**SMART GROWTH INFRASTRUCTURE = UPSIDE POTENTIAL**
PARADIGM SHIFT IN CONSUMER PREFERENCES
PENT-UP DEMAND FOR HIGHER-DENSITY, WALKABLE ENVIRONMENTS

Preference for Traditional Suburban Community

- Current Community: 68%
- Future Community: 50%

Preference for Single-Family Detached Home

- Current Home: 82%
- Future Desired Home: 68%

SOURCE: RCLCO Consumer Research
## IMPACT ON COMPETITIVENESS

**FIXED-RAIL TRANSIT = GREATER ECONOMIC OUTPUT**

<table>
<thead>
<tr>
<th>Metro Areas with Transit</th>
<th>Average GMP Per Capita</th>
<th>Average GMP Growth 00 - 10</th>
<th>Average Population Growth 00 - 10</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$46,056</td>
<td>21.3%</td>
<td>14.2%</td>
</tr>
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<tr>
<td></td>
<td>$42,106</td>
<td>20.1%</td>
<td>12.4%</td>
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</table>

| % Difference | 9% | 6% | 15% |

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<th>Average Population Growth 00 - 10</th>
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<tr>
<td></td>
<td>$57,765</td>
<td>22.0%</td>
<td>13.1%</td>
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<th>Average Population Growth 00 - 10</th>
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<tr>
<td></td>
<td>$47,902</td>
<td>42.4%</td>
<td>17.9%</td>
</tr>
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</table>

| % Difference | 25% | 60% | 25% |
AGENDA

- Market Impact of Smart Growth
- Response of Private Property Owners
RESULT = GREATER LONG-TERM VALUE

Financial Characteristics of Mixed-Use Areas with Critical Mass (Blue) versus traditional Suburban Development (Red)

SOURCE: The Brookings Institution
DENSIFICATION OF D.C. REGION UNDERWAY
CORE AND SUBURBS ACCELERATING DENSE HH GROWTH

Approximately 20% of the HH growth between 2005 and 2015 will take place within the rapidly densifying areas shown in the map to the left.

These households will drive demand for more urbane, walkable, transit-oriented environments.

Source: MWCOG Regional Activity Centers, RCLCO
NEW YORK AVENUE (NoMA DC) PRIVATE FUNDING FOR NEW STATION

Concept 1996
Private-Public Agreement 1999
Groundbreaking 2000
Opening 2004

The major developers agreed to contribute $25 million, or 33%, of the originally projected $75 million station cost (though the final total cost was $105 million).

Based on a city general obligation bond financing, a $1.5 million annual debt service calculation was made.

Individual contributions decline as more properties are added to assessment roll.

Rentable Square Feet in Area (2000) 4,330,791
Rentable Square Feet in Area (2001-2009) 8,909,877
Total Square Feet in Area 13,240,668
CRYSTAL CITY BID (Arlington, VA)
PRIVATE FUNDING FOR NEW STATION/INFRASTRUCTURE
CRYSTAL CITY BID (Arlington, VA)
PRIVATE FUNDING FOR NEW STATION/INFRASTRUCTURE

TIF through 2016 | TIF through 2028
--- | ---
Low | $82M | $798M
Medium | $98M | $960M
High | $112M | $1.1B

- 33% of the above used to fund infrastructure, including streetscape, streetcar, and pipes/roads

- **NEW** 20 cent special assessment district to fund Potomac Yard metro station
  - New developments pay into assessment, which is layered with TIF and contributions
  - Proposed residential special assessment in discussion
  - Property owners led this charge – got unanimous Council approval

- *Little-known fact* Potomac Yards Shopping Center was always a “temporary use”
WHITE FLINT (Montgomery County, MD)
PRIVATE FUNDING FOR NEW INFRASTRUCTURE
**Commercial Special Assessment**
- 10% new assessment for all commercial property owners

**Residential Impact Fees**
- impact fees for new residential developments

### INITIAL FUNDING STRATEGY SUMMARY

<table>
<thead>
<tr>
<th>Share</th>
<th>Private</th>
<th>Public</th>
<th>Fund Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2011</td>
<td>$2.97M</td>
<td>100%</td>
<td>Road Narrowing</td>
</tr>
<tr>
<td>Ia</td>
<td>$58.9M</td>
<td>78%</td>
<td>Roads, ROW Acquisition, Utility Undergrounding</td>
</tr>
<tr>
<td>Ib</td>
<td>$97.7M</td>
<td>65%</td>
<td>Circulator Bus, Roads, Utilities</td>
</tr>
<tr>
<td>Ii</td>
<td>$130.9M</td>
<td>54%</td>
<td>Metro Entrance, Roads</td>
</tr>
</tbody>
</table>
Private Property Owners and County Officials worked to find a compromise funding solution.

New funding solution goes into effect July 2011

Combination of additional tax levies with total repayment guarantees and forward funding of infrastructure

County “made it easy to do the right thing”

Policy and financing success driven by collaboration and joint problem-solving
WASHINGTON, D.C. STREETCAR
PRIVATE FUNDING FOR NEW INFRASTRUCTURE

Private Financing Taskforce -

- Residential property values near streetcar would rise 5% to 12%
- Commercial property valuations rising by 2% to 10%
- Value of existing real property in the District would increase by $5B-$7B
- Will add $5B to $8B in new property
- Adds $13.2 M in annual retail sales tax after ten years
- Adds $71.4M per year in income tax in 10 years
WASHINGTON, D.C. STREETCAR
PRIVATE FUNDING FOR NEW INFRASTRUCTURE

- **Washington Circle to 16th Street NW (A)**
  - Golden Triangle BID, CBD

- **16th Street NW to 9th Street NW (B)**
  - Downtown DC BID, East End, MVSQ

- **9th Street NW to Union Station (C)**
  - MVSQ, Mt. Vernon Triangle, NW One, NoMA

- **Independence/7th Street SW (D)**
  - East of L’Enfant Plaza, SW Waterfront

- **7th/ Maine to South Capitol Street (E1)**
  - Waterfront/SEU

- **Buzzard Point (E2)**
  - Coast Guard HQ, Florida Rock

- **South Capitol/M Street to 8th Street SE (F)**
  - Capitol Riverfront, National Park
SUMMARY OF FINDINGS – K STREET/M STREET
ENHANCED PROPERTY MARKET THROUGH 20-YEAR FORECAST

Streetcar has different impacts throughout proposed alignments
- Strengthens core markets
- Accelerates development in emerging markets
- Exerts upward demand throughout, eventually resulting in rent/price increases.

Increased development potential
- 661,000 SF Office
- Accelerated Residential Build-out
- 140,000 SF of Retail
- 145 hotel rooms

Increased rent/price potential
- Office - .5% to 4.5%
- Rental residential – 8% to 10%
- For-sale residential – 12% to 15%

Draws demand away from competitive suburban jurisdictions
- Streetcar submarkets capture demand away primarily from R-B corridor, Crystal City, with some demand capture from Tysons, Bethesda, and Alexandria

Accelerated build-out
- Core markets run out of capacity 2 - 4 years sooner with streetcar
Planning Matters

- Planners are the “venture capitalists of the public sector”

- Jurisdictions can choose to take advantages of market forces and use transit to accelerate land use changes

- Planning/zoning rigidity, especially in relation to allowable density and development capacity, can eliminate the potential value creation from TOD
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