

## 10 Things to Know about Development In Downtown Middletown

1. Demographics changes in the next 25 years will change the nature of development in Middletown.
  - i. Household growth for 35-64 will be cut in half.
  - ii. 80% of growth in households will be households without children
  - iii. 40% of growth in households will be single-person households
  - iv. Demand for large-lot homes will decline.
  - v. Half of the growth in households will be renters.
2. Downtown Middletown could be on the cusp of benefiting from these trends, but serious challenges exist- high costs, comparatively low rents and no comparable developments to lenders confidence to finance development in Downtown Middletown.
3. Without housing development in Downtown Middletown, Middletown will languish as other communities will attract investment away from Middletown
4. In the last 15 years, 9 significant projects have been undertaken in Downtown Middletown.
5. 7 of these 9 significant projects have resulted from a Public/Private Partnership between the City and developers.
6. Privately developed projects without City assistance resulted in increasing the value of those properties by an average of 240%.
7. Public/Private Partnerships resulted in increasing the value of those properties by an average of 801%.
8. Public/Private Partnership have resulted in a Return on Investment (ROI) of 14%
9. Development is attracted to areas with higher Aggregate Income Density (AID). The 435 census tracts in Hartford County, New Haven County and Middlesex Count reveal the following:
  - i. The top tier of AID is \$211,284,951 (West Hartford Center and Downtown New Haven).
  - ii. The second tier of AID is \$137,240,403 (Wallingford Center).
  - iii. Middletown's Downtown Census Tract has an AID of \$70,930,666, below average.
10. In order to raise Downtown's Aggregate Income Density:
  - i. To be at average, 28 units of housing would need to be constructed in and around the Downtown.
  - ii. To be in the second tier, 980 units of housing would need to constructed in and around the Downtown.
  - iii. To be in the top tier 1,945 units of housing would need to constructed in the Downtown.

**Middletown should establish a goal of 500 housing units in and near the downtown and create an incentive program to reach this goal.**

## Executive Summary

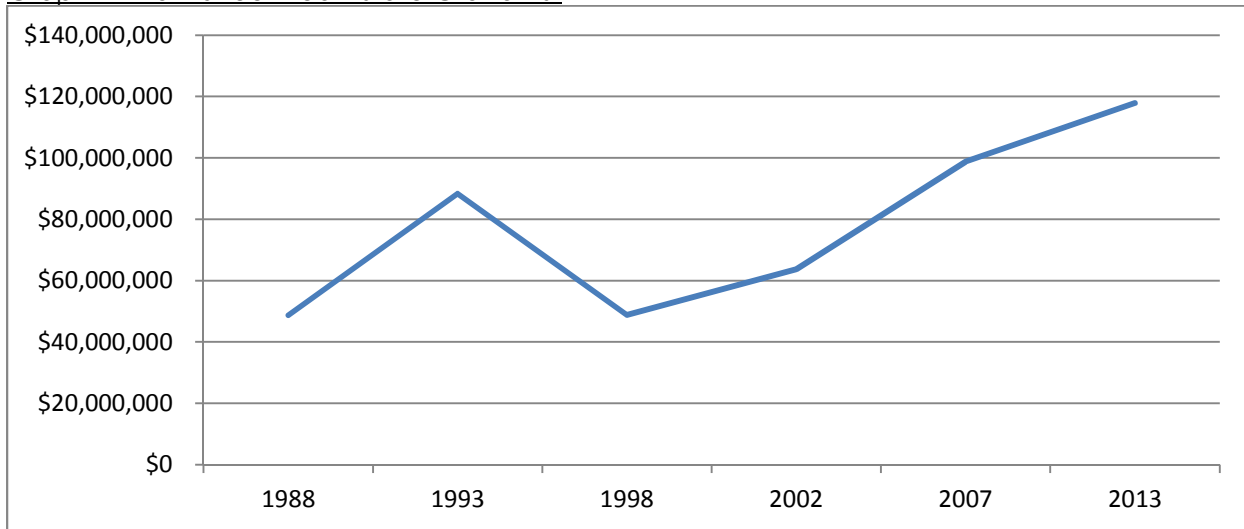
Main Street property values have appreciated through since 2007, while Citywide property values have decreased. Development where the City participated grew the values of those properties by 801%, where development without City participation grew by 240%. An area with high aggregate income density helps attract private investment. The downtown has a below average aggregate income density, compared to the 453 census tracts in Hartford, New Haven, Middlesex Counties. Investing in residential development downtown helps increase aggregate income density.

## Analysis of Main Street Grand List

The past 25 years has seen a significant change in Main Street's economic potential. Recent trends in values reflect the optimism city official, residents and business owners. Middletown seems to have reversed the drop in property values in the 1990s.

Reviewing the property values of Main Street is important since it is the economic heart and face of Middletown. The economic health and wellbeing is directly reflected in the value of these properties. Middletown consists of 27,072 acres. Properties fronting on Main Street properties comprise only 0.14% of this total land mass, but represent 4.4% of total value on the grand list. If you treat Main Street as one tax paying entity, then it would place second, behind Aetna, as one the top ten taxpayers in the City.

Graph 1- Main Street Real Estate Grand List



Taken as a whole Main Street has a higher grand list value, higher per square foot value, and comprises a higher percentage of the City grand list versus the peak recorded in 1993. In the recession of the 1990s, Main Street lost 44.8% in 5 years (8.7% per annum). During the current recession Main Street values continued to grow, but at a slower pace of 3.9% per year.

Table 1- Main Street Real Estate Grand List

	Entire Main Street Value	\$/Sqft	% of City	5-Year % Chg.	Annual % Chg.
2013	\$117,846,800	\$69.48	4.4%	19.3%	+3.9%
2007	\$98,794,643	\$60.55	3.4%	55%	+11%
2002	\$63,736,300	\$35.90	3.3%	33.6%	+6.1%
1998	\$48,809,929	\$32.73	3.5%	-44.8%	-8.9%
1993	\$88,299,400	\$49.57	5.2%	81.5%	+16.3%
1988	\$48,658,436	\$30.10	5.7%		

Compared to the Citywide Real Estate Grand List, Main Street lagged behind through 2002. Where the Citywide property values did 5% to 23% better than Main Street values. After 2002 Main Street values is 4% better in 2007 and 27% better in 2013.

Table 2- Main Street Grand List Compared to Citywide Grand List

	Entire Main Street Value	% Chg.	Citywide Value	% Chg.
2013	\$117,846,800	+19%	\$2,660,535,611	-8%
2007	\$98,794,643	+55%	\$2,894,452,670	+51%

2002	\$63,736,300	+31%	\$1,921,785,550	+36%
1998	\$48,809,929	-45%	\$1,411,921,640	-17%
1993	\$88,299,400	+81%	\$1,692,564,670	+97%
1988	\$48,658,436		\$859,522,661	

Breaking Main Street into three sections provides some surprising insights.

Table 3- Main Street Properties by Area- Total Values

	<u># of Properties</u>	<u>Acres</u>	<u>Sqft of Buildings</u>	<u>Floor/Area Ratio</u>
North End	49	9.9	509,505	1.18
Central Core	29	6.8	410,067	0.72
South End	25	20.5	547,437	1.63
Total	103	37.2	1,467,009	1.10

The North End, all the properties north of Washington Street, consist of 49 properties totaling 9.9 acres with 509,505 square feet of building floor area. This area has for the past 25 years been considered a drag on economic growth of downtown. This view point is no longer accurate. The North End of Main Street has grown by 268% in value since 1988. It did lose approximately 28% of value during the 1990s, but has been outpacing the rest of the downtown for growth during the 2000s.

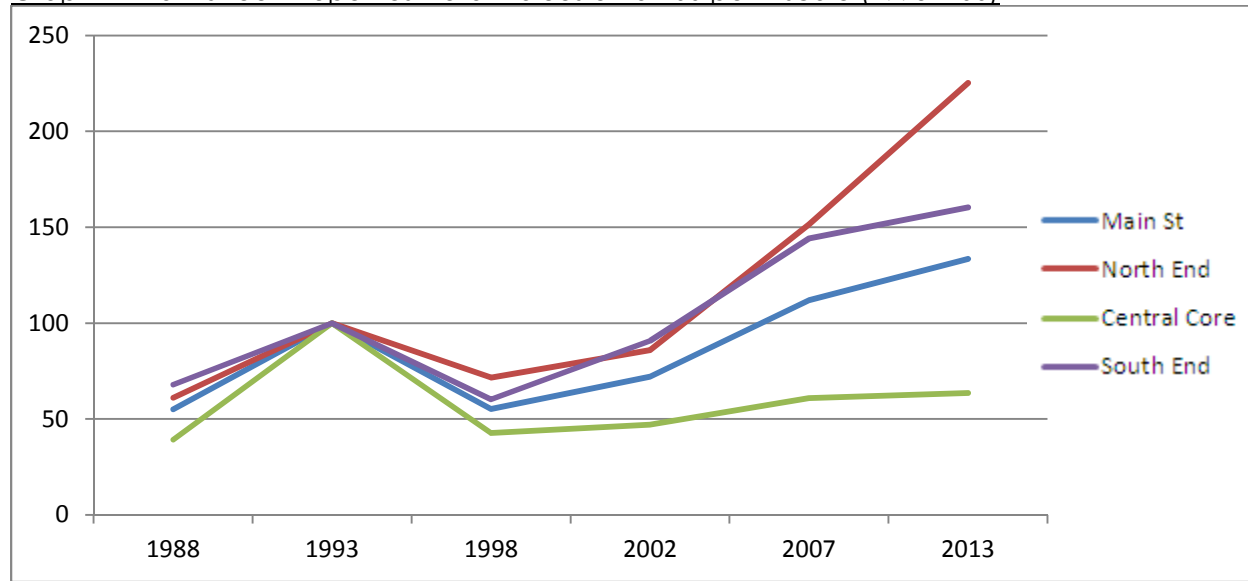
The Central Core is bound by Washington Street to the north and College Street/Dingwall Drive to the south. This area consists of 29 properties totaling 6.8 acres with 410,067 square feet of building floor area. The Central Core has been a retail, services and government center of the downtown. This section was comparable in value to the South End in 1993 and more than doubled the value of the North End in 1993. However, 1990s devastated the value of the Central Core and it has yet to fully recover. Based on the 2013 grand list the central core is only worth 63% of the value of the Central Core in 1993.

The South End is bound by College Street/Dingwall Drive to the north and Union Street to the south, consist of 25 properties totaling 20.5 acres with 547,437 square feet of building floor area.. The South End was and continues to retain the most value of the downtown. While the increases have not matched the spectacular rises seen in the North End it is more than double the 1988 peak values.

Table 4- Main Street Properties by Area- Total Values

	<u>North End Main St</u>	<u>Central Core Main St</u>	<u>South End Main St</u>
2013	\$37,422,120	\$22,718,520	\$57,706,160
2007	\$25,178,571	\$21,780,186	\$51,835,886
2002	\$14,286,786	\$16,807,143	\$32,642,371
1998	\$11,883,129	\$15,255,871	\$21,670,929
1993	\$16,614,543	\$35,712,900	\$35,971,957
1988	\$10,157,840	\$14,042,987	\$24,457,609

Graph 2- Main Street Properties- Total Values on a 100 point scale (1993=100)



Analyzing the numbers on a square foot basis yields similar result, but is a better apple to apples comparison. The entire downtown has seen square foot values increase by 40% since 1993 and more than doubled since 1988. The North End has seen them increase by 57% since 1993. The per square foot values for the Central Core have increased, but it is the lowest increase of the three downtown areas at 16%. The South End has been a strong retainer of value with a per square foot value topping \$100.

Table 5- Main Street Properties- Median Square Foot Values

	Entire Main Street	North End Main St	Central Core Main St	South End Main St
2013	\$69.48	\$66.89	\$57.15	\$107.57
2007	\$60.55	\$59.03	\$54.05	\$99.30
2002	\$35.90	\$34.35	\$33.35	\$59.58
1998	\$32.73	\$30.45	\$29.69	\$51.25
1993	\$49.57	\$42.61	\$49.17	\$85.59
1988	\$30.10	\$24.36	\$29.01	\$57.60

Table 6- Main Street Properties- Median Square Foot Values on a 100 point scale (1993=100)

	Entire Main Street	North End Main St	Central Core Main St	South End Main St
2013	140	157	116	126
2007	122	139	110	116
2002	72	81	68	70
1998	66	71	60	60
1993	100	100	100	100
1988	61	57	59	67

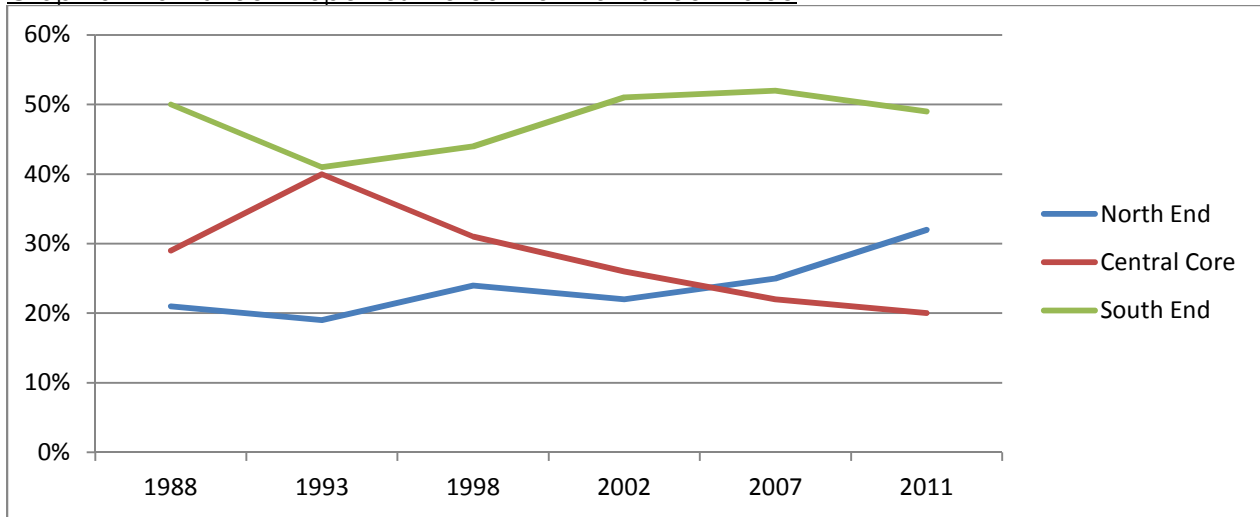
Comparing the three sections of Main Street to see what percentage of value they contribute to the overall Main Street reflects the trends commented above. However the graph is dramatic in showing the continued weakness that exists in the Central Core.

Table 7- Main Street Properties- Percent of Main Street Value

	North End Main St	Central Core Main St	South End Main St
2013	32%	19%	49%
2007	25%	22%	52%
2002	22%	26%	51%
1998	24%	31%	44%
1993	19%	40%	41%

1988 21% 29% 50%

Graph 3- Main Street Properties- Percent of Main Street Value



Looking at values in relation to area is somewhat misleading. The values represented and change over time reflect the ability to attract investment and the willingness of existing property owners to invest in their property. A building built or renovated since 1990 has a median square foot value of \$98.89 and an average square foot value of \$101.40. All other properties built or renovated before 1990 have a median square foot value of \$60.33 and an average of square foot value of \$73.56. The Central Core is now the section of downtown with the “oldest” building stock, in terms of when a building was built or had a major renovation. The South End is by far the youngest by 40 years, which likely explains the most of the value differences.

Table 8- Age of Properties and Commercial Grade

Area	Year built or major renovation	Commercial Grade
Entire Downtown average age	1930	C+
North End	1921	C
Central Core	1918	C+
South End	1968	B-

## Downtown Commercial Development

The conclusions to be drawn from the analysis of grand list values from 1988 to 2011 are that Middletown has successfully invested in the North End to create grand list value. Partnering with the private sector to create three new buildings added significant value. The South End's high grand list values supported the construction of 10 Main Street and rehabilitation of 100 Main Street. Both 10 Main Street and 100 Main Street did require government regulatory assistance in the form of a special exception permit for a drive through and a zoning concession to relax parking requirements.

Table 9- Main St Private Development

Address.....	Pre-development	Post-development	% change	Area
	Value.....	Value.....		
10 Main Street- Rite Aid	\$2,142,600	\$9,263,050	332%	South End
100 Main Street- Dialysis	\$1,333,000	\$2,540,100	91%	South End
Totals	\$3,475,600	\$11,803,150	240%	

The City has completed six significant public/private partnerships on Main Street where incentives, such as free land, grants or tax abatements, were approved in order to grow the grand list. The following table shows the results of these deals.

Table 10- Main St Public/Private Development

Address.....	Pre-development	Post-development	% change	Area
	Value.....	Value.....		
70 Main Street- Inn	\$239,371	\$7,695,700	3,115%	South End
350 Main Street- Cap. Th.	\$266,110	\$421,000	58%	Central Core
505 Main Street- Collapse	\$439,500	\$1,899,990	332%	North End
575 Main Street- ION	\$470,000	\$3,402,660	624%	North End
675 Main Street- CHC*	\$136,500	\$7,091,000	5,095%	North End
728 Main Street- O'Rourke	\$91,557	\$157,750	72%	North End
Totals	\$1,376,928	\$20,247,100	1,158%	
Totals Excluding Tax Exempt	\$1,240,428	\$13,156,100	801%	

\* Tax Exempt Property

While not all deals resulted in new tax revenue directly, they certainly resulted in future higher values for nearby properties in future revaluations. Nearby properties become more value due to increased foot traffic, day-time purchasing power and aesthetic appeal.

On average investment in Downtown Middletown for properties that are not tax exempt resulted in a 801% increase in value. Investments with City participation resulted in more projects being undertaken by the private sector and resulted in greater investment. During this timeframe there have only been two other projects of significance that did not receive direct City investment, 10 Main Street and 100 Main Street. Here the increase in value was 240% over predevelopment value.

An interesting case study is the \$50,000 investment the City of Middletown contributed to the acquisition of the Capital Theater building, resulted in a 58% increase in the property value of 350 Main Street to the Grand List. The cause of the increase in value was the condition of the acquisition to demolish the condemned rear portion of the building. The result was a cleared lot that is capable of supporting a significant future development. While the lesson is not clear and build, but rather the City should be proactive in solving problem properties.

The North End and the South End have attracted the vast majority of the investment. Meanwhile, the Central Core is not operating to market potential and the need for a public/private partnership development seems to be called for. The most significant opportunity to support adding value to the grand list is to revitalize the Bob's Building.

Between 2007 and 2013, the value of the Bob's Building fell by 3.4%, while the rest of Main Street increased in value by 19%. The result is that the Bob's Build had an actual -22% decrease. Partnering with the private sector has been a successful strategy for Middletown and would likely be the correct path in addressing the reuse of the Bob's Building.

Table 11- Investments Costs

Address	Cash Grant	Tax Abatement	Total	% of Value
70 Main Street- Inn	\$400,000	\$404,600	\$804,600	10.5%
350 Main Street- Cap. Th.	\$60,000	\$0	\$60,000	14.3%
505 Main Street- Collapse	\$26,000	\$135,868	\$161,868	8.5%
575 Main Street- ION	\$0	\$190,000	\$190,000	5.6%
728 Main Street- O'Rourke	\$25,000	\$0	\$25,000	15.8%
Total	\$511,000	\$730,468	\$1,241,468	9.1%

The City of Middletown invested a total of \$1,241,468 in grants and tax abatements on five taxable projects. This investment equaled 9.1% of the after development property value.

Table 12- Return on Investments

Address	Investment	Annual Income (abated)	Annual ROI
70 Main Street- Inn	\$804,600	\$99,601	12.4%
350 Main Street- Cap. Th.	\$60,000	\$7,662	12.8%
505 Main Street- Collapse	\$161,868	\$20,993	13.0%
575 Main Street- ION	\$190,000	\$42,928	22.6%
728 Main Street- O'Rourke	\$25,000	\$2,871	11.5%
Total	\$1,241,468	\$174,056	14.0%

Investigating the return on investment, the City's principal earned an average of 14.0% based on a 10 year time horizon, which is the standard financing time horizon for nearly all of the City's investment in public infrastructure. The City is restricted in where it can invest its money, therefore if the City sought to increase revenue through investments the same \$511,000 in cash grants would have earned the City only \$9,372 annually over a 10 year period or a return on investment of 1.8%, using the Fed's Funds Rate from 2003-2012.

The only reason for the City to pursue partnerships in private development would be to grow the grand list to fund the necessary service of the City, like schools, roads and safety. The following table shows where the increased revenue goes as a result of the five projects shown in tables 11 and 12.

Table 13- Increase in Funding to Various Government Services

Address	%	Annual Benefit
Public Safety	13.7%	\$23,932
Public Works	5.9%	\$10,253
Education	52.4%	\$91,194
Other General Government	26.9%	\$46,701
Debt Interest	1.1%	\$1,976
Total	100%	\$174,056



## Downtown Housing Public/Private Partnership

The City has had some success in attracting commercial investment to the Downtown. Resident development is an area of opportunity that continues to be unrealized. Again Public/Private partnerships provide hope for success.

One example is the Wharfside Commons affordable rental housing development on Ferry Street. The City contributed \$1.3 million in bond funds and over \$200,000 in Community Development Block Grant funds for acquisition and relocation, as well as a 30-year tax abatement, in order to create 96 new housing units.

Table 14- Ferry Redevelopment 2005 Grand List

<u>Property</u>	<u>Market Value</u>	<u>Sqft.</u>	<u>Sqft. Value</u>
30 Ferry Street	\$34,090	0	
34 Ferry Street	\$106,900	5,162	\$20.71
40 Ferry Street	\$257,400	8,583	\$29.99
44-46 Ferry Street	\$60,880	4,616	\$13.19
54 Ferry Street	\$132,300	7,023	\$18.84
56 Ferry Street	\$57,370	1,708	\$33.59
58 Ferry Street	\$161,820	3,872	\$41.79
60 Ferry Street	\$95,450	3,494	\$27.32
64 Ferry Street	\$81,200	3,516	\$23.09
66 Ferry Street	\$76,500	0	
68 Ferry Street	\$39,980	0	
68 Ferry Street	\$33,630	0	
<b>Total</b>	<b>\$1,137,520</b>	<b>37,974</b>	<b>\$29.96</b>

Table 15- Ferry Redevelopment Before and After

<u>Property</u>	<u>Market Value</u>	<u>Rental Units</u>	<u>Sqft.</u>	<u>Sqft. Value</u>
Pre-Redevelopment	\$1,137,520	21	37,974	\$29.96
Post-Redevelopment	\$6,125,300	96	106,875	\$57.31
% Increase	438%	357%	181%	91%

Table 16- Investments Costs

<u>Property</u>	<u>Cash Grant</u>	<u>Tax Abatement</u>	<u>Total</u>	<u>% of Value</u>
Ferry Street	\$1.5 million	\$1,884,019	\$3,384,019	55%

Table 17- Return on Investments

<u>Property</u>	<u>Investment</u>	<u>Annual Income</u>	<u>Annual Return on Investment</u>
70 Main Street- Inn	\$3,384,019	\$146,039	2.4%

This was a significantly subsidized development for the City of Middletown to participate in. The overall goal was predominantly to address long standing quality of life issues stemming from concentration of very poor quality housing stock and open air drug market. From then analysis above and from analysis in the next section, specifically table 21, the Wharfside was able to turn change the trend for the North End. Some of the economic development projects undertaken in the North were likely strengthened by this public/private venture.

## Aggregate Income Distribution

Retail consultants are interested in a statistic called aggregate income density. Rather than look for areas of high median income, developers may be more interested in looking for areas that have a critical mass of income within a confined area. Areas that have relatively high aggregate income density tend to be a good predictor of economic vitality, and indicate areas with a built-in market for new developments.

Analyzing this tool on a regional basis can measure where Middletown is compared to other communities it is competing against, in order to give an idea what a meaningful goal would be.

### Aggregate Income Distribution at the City Level

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Nearly 40% of the City of Middletown lives within the five most densely populated census tracts. These five census tracts comprise 33% of the City's aggregate household income. However, based on density of income, these five census tracts effectively capture 72% of the City's income density.

The Downtown is the weakest census tract, but it would improve with the addition of new households. Bring the number up to 750, or approximate 100 new housing units, would bring the downtown in line with its surrounding neighborhoods.

These two areas, Westlake and the Downtown have the economic critical mass to become more than what they are now. Westlake has the opportunity to become more than a residential neighborhood. The downtown has deeper commercial and more diverse residential market.

Table 18- Household Density Table

Area	Sq. Miles	Households	Household Density
5416 Downtown	0.33	791	2,397
5417 South End	0.78	1,526	1,956
5411 North End	0.64	1,051	1,642
5415 Wesleyan Campus	0.47	620	1,319
Total	2.22	3,988	1,796

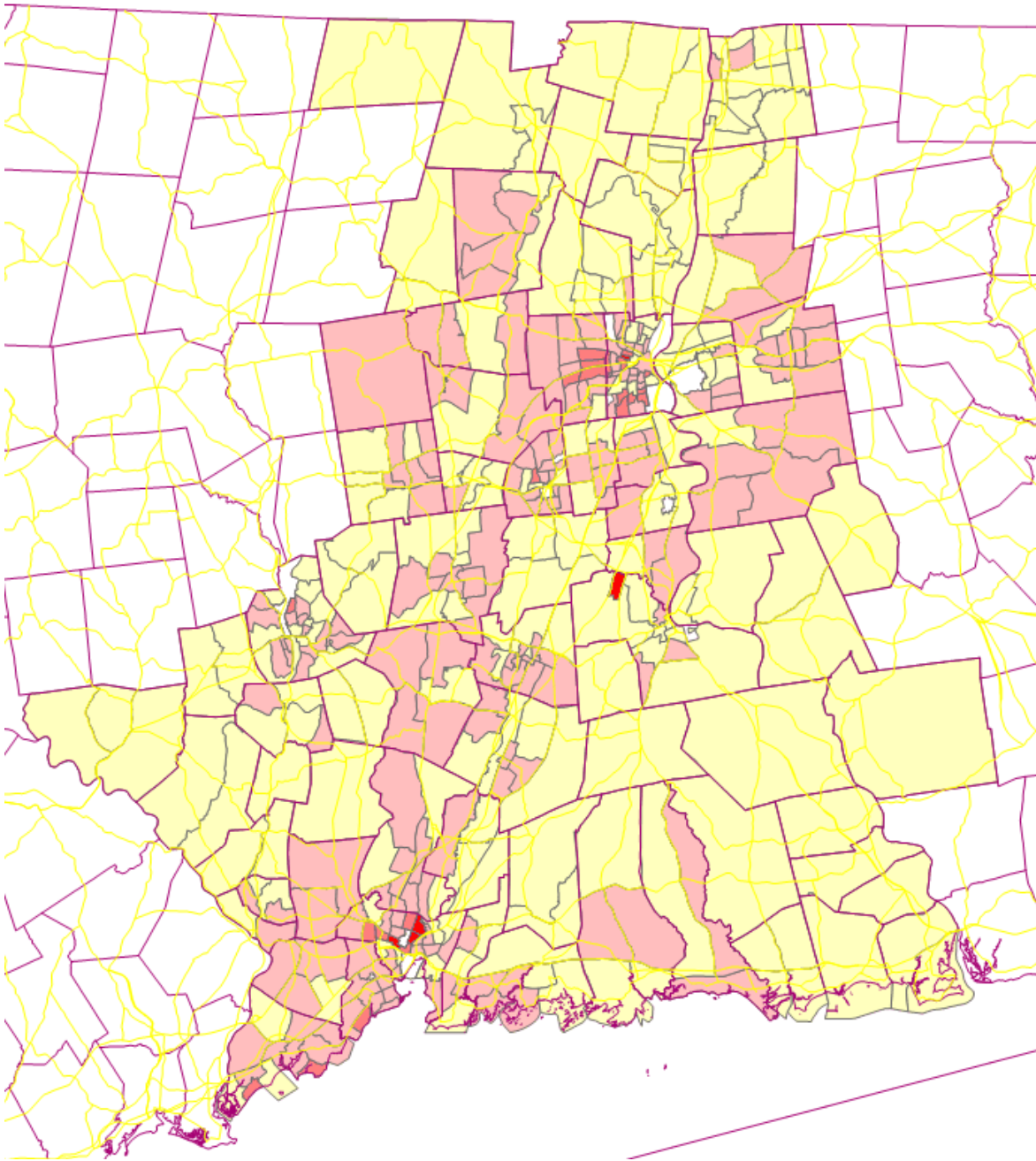
Table 19- Aggregate Income Density Table

Area	Median HH Income	Agg. HH Income	Agg. Income Density
5416 Downtown	\$25,556	\$23,522,900	\$70,930,666
5417 South End	\$35,949	\$68,565,600	\$88,283,405
5411 North End	\$46,406	\$61,736,500	\$95,837,198
5415 Wesleyan Campus	\$41,691	\$74,073,500	\$83,992,001
Total	\$37,401	\$227,898,500	\$84,760,817

## Aggregate Income Distribution at the Regional Level

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The map below shows the census tracts in red that have a high aggregate income density



Looking at the top 5% highest income density census tracts, there is a difference between having a large number of households and a critical mass of wealth. Using median income in conjunction with income density we can separate the census tracts that have true economic potential. Westlake ranks number one out of this group.

Table 20- Fiver Tiers of Aggregate Income Density (Representative Census Tracts)

Highest AID	\$230,662,070 - \$437,165,732	Downtown New Haven- West Hartford Center-	\$235,141,684 \$230,752,519
Higher AID	\$158,228,262 - \$230,662,070	Wallingford Center-	\$200,247,330
Above Average AID	\$109,939,057 - \$158,228,262	Wethersfield Commercial Center- Downtown Manchester-	\$135,404,487 \$130,262,302
Average AID	\$61,649,852 - \$109,939,057	Downtown Bristol- Hamden Center- Newington Center- Southington Center-	\$107,003,138 \$101,854,204 \$89,456,652 \$87,537,134
\$85,794,455 Average		Downtown Meriden- Downtown Hartford - Greater Downtown Middletown- Downtown East Hartford- Downtown Core Middletown-	\$85,583,320 \$84,939,902 \$84,760,817 \$81,955,988 \$70,930,666
Below Average AID	\$13,656,248 - \$61,649,852	Downtown New Britain-	\$37,722,508
Low AID (Rural)	\$2,033,339 - \$13,656,248		

The table above shows where downtown style housing development could be considered. The core of Middletown's core is below average at \$71 million per square mile. Examining the Downtown Core, the North End, Wesleyan Area and the South End, the number of households increases by near 3,200 and aggregate income density notches up 14 million to \$85 million per square mile. However, this still places Middletown below average in our competitive market of Hartford County, Middlesex County and New Haven County.

Therefore, the easiest way to increase aggregate income density is to add housing. Adding between 520 and 1,43 units would help increase the Downtown Core's Aggregate Income Density to the Above Average tier.

Table 21-How Much New Housing Is Needed- Downtown Core

AID Tier	Housing Units based on Median Household Income			Net Housing Units
	\$37,401	\$57,655	\$75,000	
Current- Average AID	791	791	791	0
Above Average AID	1,834	1,468	1,311	520-1,043
Higher AID	3,125	2,305	1,955	1,164-2,334
Highest AID	5,062	3,561	2,921	2,130-4,271

If Middletown added 336 housing units to the Greater Downtown area, then aggregate income density would increase to be in the above average tier. Adding 980 households would move Middletown to the tier that includes Wallingford Center. To be in the ranks of West Hartford Center or Downtown New Haven Middletown would need to add between 1,945 to 3,901 housing units.

Table 22-How Much New Housing Is Needed- Greater Downtown

AID Tier	Housing Units based on Median Household Income			Net Housing Units
	\$37,401	\$57,655	\$75,000	
Current- Average AID	3,988	3,988	3,988	0
Above Average AID	4,661	4,425	4,324	336-673
Higher AID	5,952	5,262	4,968	980-1,964
Highest AID	7,889	6,519	5,933	1,945-3,901

Does adding housing work to increase aggregate income density? Table 21 shows the answer is yes. The City of Middletown was successful in increasing the aggregate income density by 39% and increased the median income by 53% through the addition of 96 new housing units through the Wharfside Commons affordable housing rental development.

Table 23- Downtown Census Tract (5416) 2000 to 2010

Year	Households	Median HH Income	Aggregate Income Density
2000	703	\$13,699	\$51,119,696
2010	791	\$20,828	\$70,930,666
	+13%	52%	39.4%

Table 24- Citywide 2000 to 2010

Year	Households	Median HH Income	Aggregate Income Density
2000	18,542	\$47,162	\$26,167,573
2010	20,637	\$57,655	\$34,636,280
	+11%	22%	32.4%

Table 25- Citywide Bedrooms

	0	1	2	3	4	5 or more
2010	550	4,198	6,782	7,233	2,423	689
2000	556	4,225	6,336	6,603	1,596	379
% Change	-1.1%	-0.6%	7.0%	9.5%	51.8%	81.8%

Table 26- Citywide Household Size

	0	1	2	3	4	5 or more
2010		7,100	6,554	2,928	2,051	1,230
2000		6,491	6,157	2,740	2,037	1,129
% Change		9.4%	6.4%	6.9%	0.7%	8.9%

Table 27- Citywide Bedrooms

	0	1	2	3	4	5 or more
2010	2.3%	19.8%	31.5%	31.8%	11.3%	3.2%
2000	2.8%	21.4%	32.1%	33.5%	8.1%	1.9%

Table 28- Citywide Household Size

	0	1	2	3	4	5 or more
2010		34.9%	35.0%	13.9%	11.1%	5.1%
2000		34.9%	33.1%	14.7%	11.0%	6.1%

The City should establish a goal for downtown housing. This report proposed that Middletown set a goal of 100 units in the next five years and achieve the creation of 500 new housing units by the year 2025.

## **Incentive Program for Downtown Housing Development**

### **Housing Subsidies**

Establish a fund to allow assist in the creating new urban core living units in the B1 zone, with the following requirements:

- Only for buildings with 6 or more urban core living units
- Assistance cannot be for more than 15% of the project post development appraised value for year one funded projects.
- Assistance cannot be for more than 10% of the post project development appraised value for years two through five funded projects.
- The project must be in a three story to a six story building
- The project must increase the assessed property value by more than 300% or \$500,000 whichever is higher.

Proposed Downtown Housing Fund

Year 1- \$500,000  
 Year 2- \$200,000  
 Year 3- \$200,000  
 Year 4- \$150,000  
 Year 5- \$150,000

### **Tax Abatement**

The Council authorize the Economic Development Commission and the Mayor to approve and execute any agreements to grant tax abatements in keeping with Middletown Ordinance 272-9 and the requirements of listed above. This authority would last for 5 years.

### **Building Permit Fees**

The Council authorize the Economic Development Commission and the Mayor to approve the waiving of any building permit fees for any construction project over \$1.5 million and the requirements of listed above. This authority would last for 5 years.

### **Parking Permits**

The Council cover 100% of the cost of over-night parking permits for first 50 housing units, Then cover 50% of the cost of over-night parking permits for the following 100 housing units.

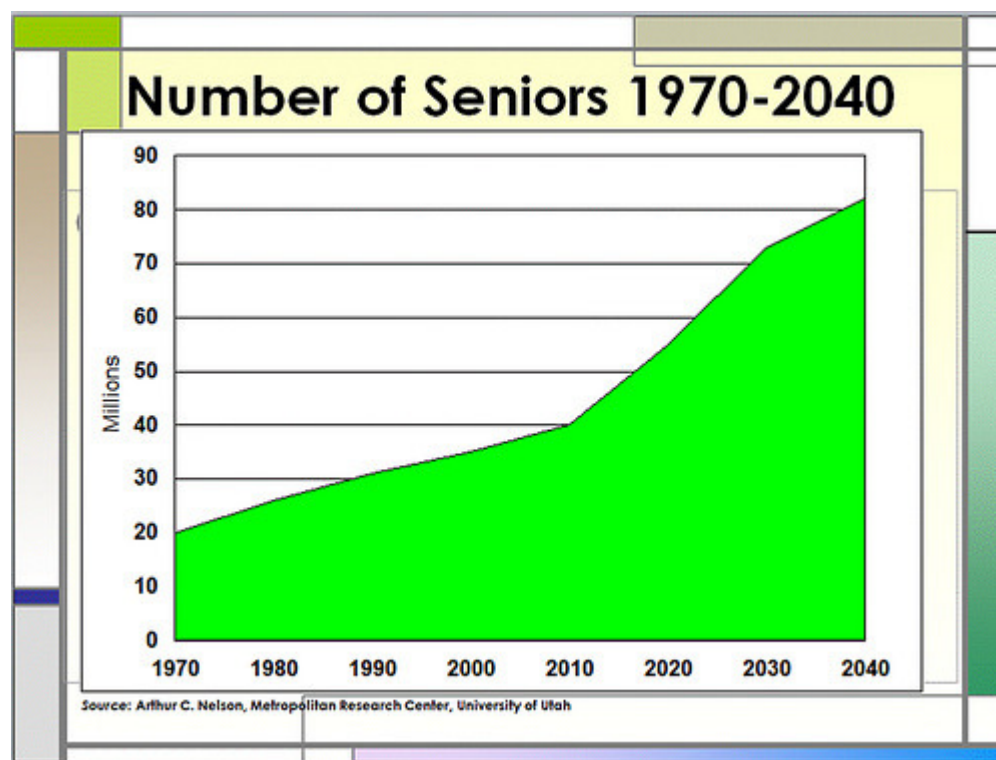
Ten things planners need to know about the future real estate market  
 Blog post by Kaid Benfield on 06 Feb 2014

Professor Arthur C. Nelson, of the University of Utah, has made a career out of studying the relationships between demographic and real estate market trends. He predicted the 2007 collapse of the housing market because of oversupply of key housing types so, when he talks, I listen. And his latest analysis suggests that the growth in demand for new housing over the next 30 years will consist primarily of demand for smaller homes on smaller lots, a reversal of the type of demand that fueled sprawl in the late 20th century.

Much of Nelson's thinking is collected in his data-rich 2013 book, *Reshaping Metropolitan America*. It is consistent with information I have collected and shared both here and, in more detail, in a chapter of my own new book, *People Habitat*.

Last week, Nelson made a presentation in Columbus, Ohio, reported in the blog of my colleague, Deron Lovaas. What was especially interesting to me was to see Nelson's analysis projected out not just to 2030, as in his book, but out to 2040. As far as I know, the presentation isn't online, but I have reviewed it carefully. Here are what I believe to be the most important points:

1. The US population will grow by 31 percent between 2010 and 2040. In 2010, our population stood at about 308 million people. By 2040, we will be at about 406 million.

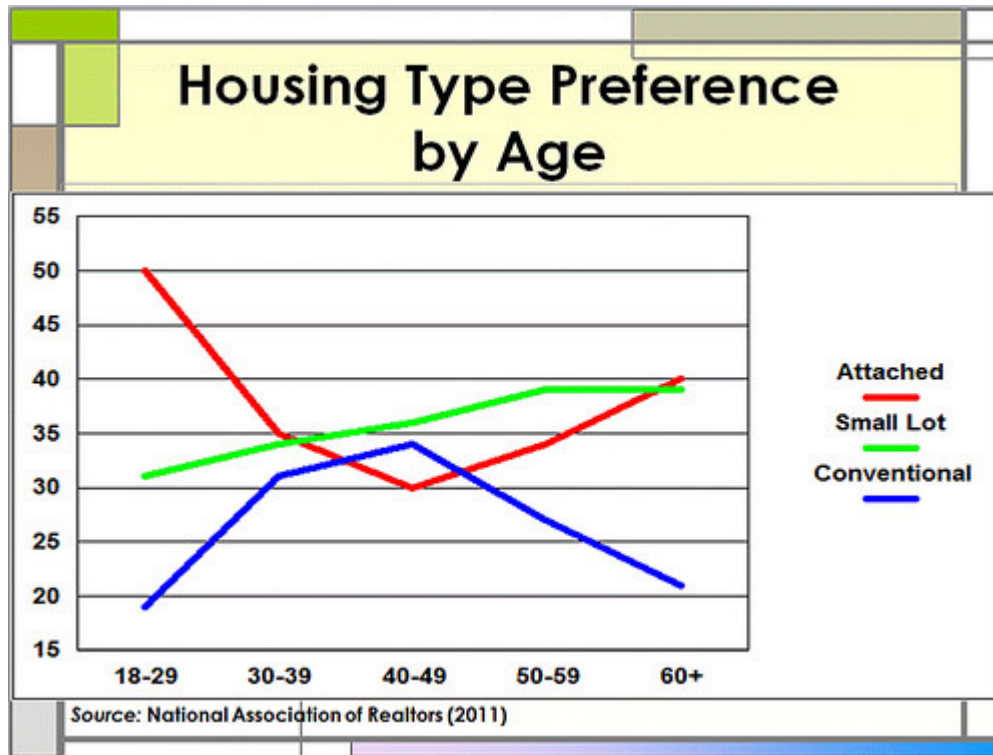


2. More than 40 percent of population growth between 2010 and 2040 will be persons aged 65 and older. On 2010, ages 65 and older claimed 40 million people, or 13 percent of total population. By 2040, the share of seniors will be 81 million, or 20 percent of the total.

3. The share of household growth claimed by ages 35-64 (the bracket traditionally seeking the most housing space) will almost be halved. From 1990 to 2010, 65 percent of household growth consisted of persons aged 35 to 64. Between 2010 and 2040, only 35 percent of household growth will comprise persons in that age bracket.



4. More than 80 percent of growth in households will be households without children. This makes sense given that the baby boomers, the largest generation in American history, are now empty nesters; people are living longer; and the Millennial generation is, for the most part, not having children yet.

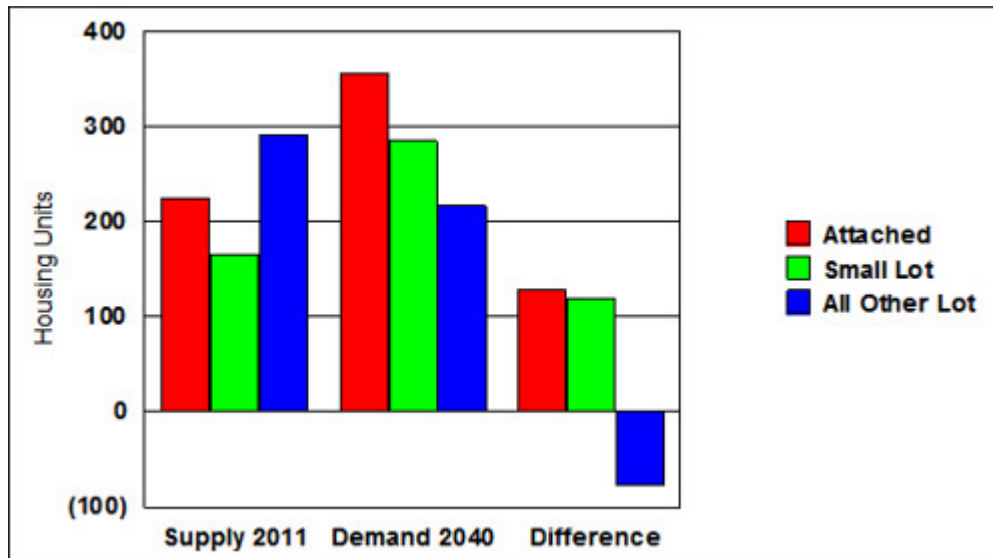


5. More than 40 percent of growth in households will be single-person households.

6. Half of all new housing demand will be for attached homes and the other half for small lot homes. This is another reversal from past preferences.

7. Demand for large-lot homes will decline below 2011 levels. At first blush, this statement seems shocking. But, on further consideration, it isn't, given that Nelson isn't saying that demand will dry up. He's basically saying that this isn't the part of the market that will experience growth. Demand for large lots will continue, but it won't be as high as before. This could portend more mortgages under water for those who have invested in large-lot homes.

8. Half of the growth in households will be renters. The home ownership rate has been declining since 2004.



9. The next 30 years will bring demand for over one billion square feet of nonresidential space, or almost twice what exists now. That is a bit scary to contemplate, until one considers Nelson's next point:

10. Seventy percent of new nonresidential space will be redevelopment on existing developed lots. In fact, Nelson says that, if the density of new development were increased (from an average floor-area ratio of 0.2 to 0.5), all new nonresidential and attached residential demand could be met on existing parking lots. That's a pretty amazing statement. (A floor-area ratio of 0.5 means that a one-story building would occupy half its lot; a two-story building would occupy one fourth of its lot; and so on. Large surface parking lots are the biggest cause of low floor-area ratios.)

Redevelopment opportunities arise much more frequently on aging commercial building sites than on residential sites, because of the much shorter average life spans of commercial buildings, especially retail.

For an interesting presentation by Nelson along these lines framed for the state of Utah, go here.

Kaid Benfield is director of sustainable communities at The Natural Resources Defense Council in Washington, DC. This blog also appeared on NRDC Switchboard.

## TREND TOWARD DOWNTOWNS AND WALKABLE SUBURBS ›

Why urban demographers are right about the trend toward downtowns and walkable suburbs  
 Blog post by Kaid Benfield on 28 Feb 2014

I and others have been tracking for some time a surging interest in walkable neighborhoods, in both reinvested downtowns and more pedestrian-friendly suburban developments. Just last month I cited University of Utah Professor Arthur C. Nelson for the propositions that, contrary to what occurred in previous generations, half of all new housing demand between now and 2040 will be for attached homes, the other half for small-lot homes. The demand for large-lot suburbia, by contrast, is diminishing.

In other words, there's a reason why city living is becoming more expensive and suburbs less so: demand for what cities offer is up, and demand for automobile-dependent suburbs, relatively speaking, is down.

In my new book *People Habitat: 25 Ways to Think About Greener, Healthier Cities*, I put it this way in a chapter titled "But the Past Is Not the Future":

"The way households are going to be evolving over the next few decades is toward more singles, empty-nesters, and city-lovers, none of whom particularly want the big yards and long commutes they may have grown up with as kids. A significant market for those things will still exist, but it will be a smaller portion of overall housing demand than it used to be. This new reality means that the communities and businesses that take account of these emerging preferences for smaller homes and lots and more walkable neighborhoods will be the ones that are most successful."

The voice of a skeptic

Alan Mallach, a serious scholar at the National Housing Institute (NHI) and someone I respect, isn't buying it, however. Or maybe he is, but only a little bit. Mallach believes that we may be seeing a short-lived phenomenon of latte-sipping Millennials moving downtown, but no one else, and even the Millennials may be unlikely to remain once they start raising kids.

On *Rooflines*, the NHI's blog, Mallach cites suburbanist Joel Kotkin with approval and opines:

"As I read much of what is being written about demographic change and urban revival, I see a lot of urbanist wishful thinking, along the same lines as the scenarios some pundits paint of exurban McMansions turning into slums and squatter colonies, as their former residents flee the suburbs for the cities like the residents of Pompeii fleeing the eruption of Vesuvius. Is it possible? Yes, but the evidence is not there."

Mallach may have a point when he sets up the easy-to-knock straw man of McMansions becoming squatter colonies. I think they will decrease in value, but squatter colonies is going a bit far. Nonetheless, I think he's wrong to be so sharply dismissive of the evidence that weighs in favor of a lasting rebirth of central cities. (I'll discuss some of the evidence below.)

He's also wrong not to acknowledge that, while some residents will indeed prefer suburbs in future decades, that does not mean they will prefer the types of unwalkable, outer suburbs that we built in the last half of the 21st century. I believe that suburbs are here to stay but that increasingly they, too, will take a more walkable, somewhat less auto-dependent form.

The question whether the rebirth of cities will grow to include families is trickier. Here's what Mallach has to say on the subject:

"The other question is whether millennials will stay in the cities as they move into marriage and child-rearing—as most will—and the appeal of all those bars and restaurants down the block begins to pall. If, as preference surveys show, most will ultimately look for a single-family house in

which to raise their children, will they opt for a Philadelphia row house or a St. Louis Victorian, or will they move to the suburbs?

"It will be a while before we have a clear picture, but there is little evidence to point to a long-term millennial commitment to cities as a place to remain, settle down and raise families. Joel Kotkin not unreasonably chastises writers who, with little or no evidence to back them up, confidently assume that they will do so. While the jury is still out, there is no compelling evidence of anything resembling the fundamental shift in values and attitudes on the part of millennials that would lead to most of them behaving that differently from earlier generations, and—to the extent that their means permit—buying suburban houses in which to raise their children, and, as often as not, commuting to work in the city in their Priuses."

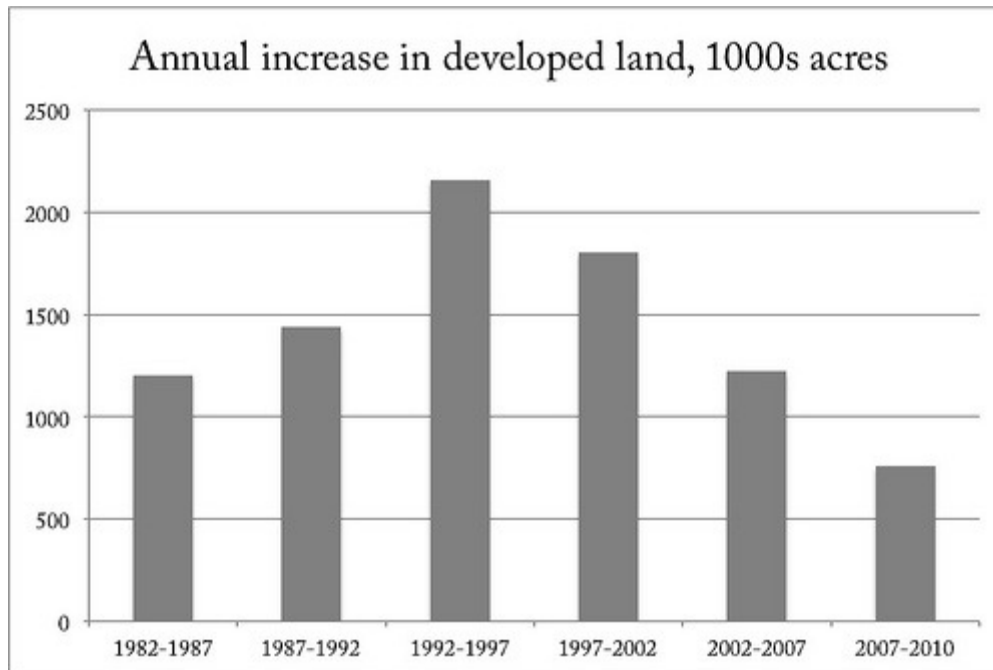
Mallach's cheap shot at Priuses aside, I have raised the same issue about whether we will make our reborn cities more family-friendly for those with a choice about where to live. I don't think we have gone far enough yet to do so, but I am hopeful that we will, as those families with a preference for urban living begin to demand it.

More to the point, though, I wonder if Mallach is asking the right questions: I don't see the fundamental future choice as between city and suburb but between more walkable, diverse and healthy places, on the one hand, and more automobile-dependent, monolithic, and unhealthy ones, on the other. As I also write in *People Habitat*, whether those places are within or outside city limits is of most relevance to cartographers and candidates for city office; the environment, economy and, increasingly, our social fabric don't care. What matters in the 21st century is not so much "cities" in the traditional jurisdictional sense, but metropolitan regions and neighborhoods. Both are changing for the better, and in a lasting way, in my humble opinion.

Here's some evidence:

#### Peak sprawl

The rampage of sprawling, outer metropolitan development that ate up farmland while severely disinvesting older communities hit its peak in the mid-1990s, and there is no evidence that it is coming back. My friend Payton Chung, writing in his provocative blog *west north*, charts the amount of land converted to development over time. His graph, based on the National Resources Inventory, shows a dramatic rise in sprawl from the mid-1980s to the mid-1990s, followed by a marked decrease every five years since:



Note that the dropoff in the amount of newly developed land began a full decade before the recession and, for that matter, even before the “giant housing bubble showered suburbs with seemingly limitless sums of capital,” as Payton puts it. This decrease in outer suburban development isn’t “urbanist wishful thinking”: it is fact. It’s also fact that central cities are growing again, after decades of decline – and, for the first time in a century, growing at a faster rate than their suburbs.

The trend is also consistent with my own observations about average housing prices, which I charted and mapped for the Washington DC area during the recession years 2006-2009, and for the three following years, 2009-2012. The maps show a wide disparity between the changes in many outer location prices, which fell precipitously, and the prices in many inner and transit-served locations, which held steady or increased in value. I’ve seen maps of other regions that, to varying degrees, show similar results: urban housing values are proving more resilient than outer suburban ones.

As for what preference surveys say about the desires of the Millennial generation, those that I have seen support Mallach’s assertion to the extent that some Millennials will seek single-family homes and suburban living. But not to the same degree as preceding generations. According to analysis by industry advisers RCLCO, 31 percent of Millennials prefer a “core city.” What is particularly significant about this finding is that it is twice the portion of the preceding generation when polled at the same age. Perhaps more to the point, two-thirds wish to live in walkable places and town centers, whether in the inner city or in suburbs. A third will pay more for walkability, and half will trade space for it.

Professor Nelson, cited above, believes that, although there will be a continuing demand for large-lot housing, that demand will constitute only 25 percent of the market by 2040. Seventy-five percent will seek either attached or small-lot housing. This makes particular sense when one considers that the number of adults of child-rearing age and the number of households actually living with children will comprise a much smaller portion of the overall market than in previous decades. Nelson estimates that 87 percent of the growth in the housing market through 2040 will comprise households without children.

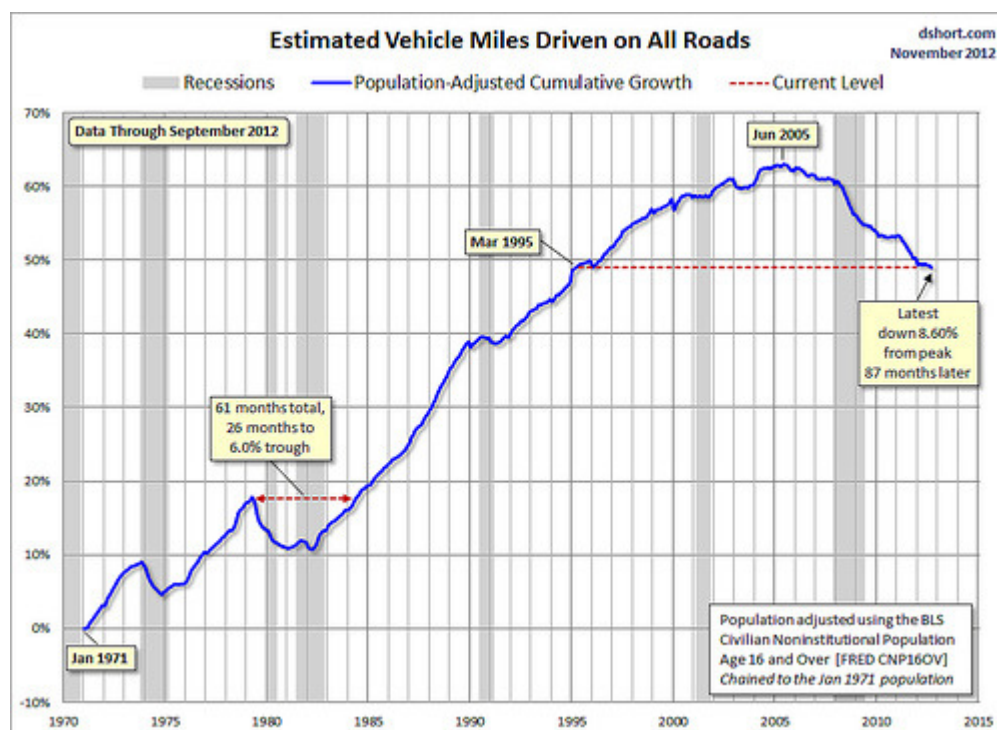
This means that, even if Mallach is right in his predictive generalization that today’s loft-dwelling Millennials will become tomorrow’s auto-dependent suburbanites – and I don’t believe there is evidence that the generation will make such uniform choices – there will still be plenty of people

in the market for urban and walkable suburban homes. And, yes, some of them will be empty-nesting seniors who must or prefer to reduce their driving. While many will remain in their current, automobile-dependent suburban homes until forced out by infirmity – I have sad personal experience with this – I believe that many of those who do move will choose walkable environments as their new communities.

By the way, it isn't just current and future residents who are going to be choosing cities and retrofitted suburbs over the coming decades. After decades of fleeing downtowns for office parks and exurban campuses, corporations are moving back to the city, too, such as Motorola in Chicago (3,000 jobs coming back to the Loop) and the other large businesses I cited in December. Meanwhile, the major corporations in Dublin, Ohio – the wealthiest suburb of Columbus – have banded together with city leaders in a major, multi-year effort to make their sprawling community's business district more walkable and hospitable to the bright young talent they need to recruit.

### Peak car

It took a while to convince me of this one, but the data show that we have also hit a peak in vehicle miles traveled (VMT), on both a per capita and absolute basis. I believe the following graph shows the population-adjusted total rate of driving (something akin to VMT per capita but not quite the same; see the technical explanation):



The graph shows that VMT in the US peaked in 2005 and has been dropping ever since. Note again that the beginning of the decline preceded the recession – and the drop has been continuing steadily throughout the recovery, to the point where by late 2012 population-adjusted driving had decreased to 1995 levels.

In the same article in which he discusses the decline in the rate of newly developed land, Payton Chung speculates – and I suspect he is right – that the primary reason for the decline in driving is that, as regions have stopped spatially expanding, driving distances have gotten shorter, on average, as they have added population. Other reasons include mode shifts as greater portions of the population are able to choose walking and public transit for a portion or all of their trips.

Writing last year in *The Atlantic Cities*, Emily Badger summarized the data:

“The handy thing about ‘peak car’ as a concept is that it can nominally be proven in many ways. You’ve got Peak Driver’s License. Peak Registered Vehicle. Peak Gas Consumption. Peak Miles Traveled. There are peaks per person, per household, per demographic. Then you’ve got your absolute peaks when you add up all of our vehicles and miles together, as if we were all cruising the highways at the same time.

“Earlier this summer, [University of Michigan researcher Michael] Sivak released data showing that the number of registered light-duty vehicles in America (cars, pickup trucks, SUVs, vans) had peaked per person, per licensed driver and per household in the early to mid 2000s, before the onset of the recession. Because the U.S. population continues to grow, he predicted that the absolute number of vehicles had not yet peaked. But per person and household, we seem willing now to own fewer of the things . . .

“All of the peaks on [Sivak’s] chart occur around 2004, a time that predates both the recession and the housing bust. That means, Sivak suggests, that other factors beyond the temporary state of the economy may be driving these downward trends, from the rise of telecommuting, urbanization and public transit usage to fundamental shifts in the age demographics of drivers.”

Before she stepped down as director of planning for Washington, DC, Harriet Tregoning told me that, in the previous decade, the city had added 15,000 residents with no net increase in driver’s licensing or registered vehicles. I find that astonishing evidence that something real is going on.

Again, this is not urbanist wishful thinking. These are facts.

I suppose Mallach’s answer might be that, once the Millennials start having those kids in the suburbs, we can expect driving to grow again, whether in Priuses or not. And he may well be right to a degree, but I’m betting it won’t be to a degree that takes us back to the per-household levels of 2005.

Consider that, over the last decade, miles driven by Americans aged 16 through 34 dropped 40 percent per capita compared to the same age group in the previous decade. That’s not evidence of a real change? In the same decade, bicycling trips per person in the age group went up 24 percent while walking went up 16 percent. Twenty-six percent of Americans in that age group, a growing number, do not have a driver’s license. (Sorry, but that’s a huge change: the most exciting day of my young life at age 16 was the day I got my driver’s license.)

Again, we don’t need a wholesale shift in behavior to indicate a shift in direction. And I suppose that is my biggest beef with Mallach’s argument: it presents only two options, either that Millennials are choosing cities for the long haul, or they going to revert to 1980s-style suburbia. I suspect the truth is in between, but that a larger portion of Millennials will stay in cities or choose walkable, 21st-century suburban places than did previous generations.

Peak Walmart?

One can even make a case that we have reached a sort of “peak Walmart,” in which the decades-old business model of the giant retailer – paving over forests and farms at the exurban fringe to establish automobile-dependent megastores – is past its prime. The company’s fourth-quarter net income for 2014 fell 21 percent. And, although Walmart isn’t saying it in so many words, the retailer believes its future lies in a different, less sprawling and more urban direction.

Writing in last Friday’s *Washington Post*, Amrita Jayakumar reports:

“In its fourth-quarter earnings report, Wal-Mart said sales at its U.S. stores fell 0.4 percent and customer traffic decreased 1.7 percent. But the company’s global e-commerce sales grew to

more than \$10 billion in 2013, an increase of 30 percent from the year before. Sales at its small stores were also up 4 percent in the last year.

“Wal-Mart said it would pour resources into online and mobile shopping options. The retailer also announced that it would open twice as many neighborhood stores throughout the country.” (Emphasis added.)

Over on his Strong Towns Blog, my friend Chuck Marohn quoted a story from CNBC on Walmart:

“The big-box discounter is in need of a bricks-and-mortar makeover, analysts said. To resonate with today’s shopper, Wal-Mart needs to move its stores closer to major population centers, shrink the square footage of its superstores and shutter about 100 underperforming U.S. locations, they suggest.”

In other words, Walmart needs to move away from sprawl, because that isn’t where the future market potential lies.

Not that closing and abandoning suburban Walmarts – leaving communities with 20-acre decaying eyesores that are difficult to repurpose – is such a great thing, by the way, even if it does furnish further proof that land use in America is fundamentally changing. And, as for Walmart’s “going urban,” that may not be such a great thing, either, as discount competition drives out established businesses that have made longstanding commitments to inner cities.

A more serious issue

Toward the end of his article, Mallach – whose scholarship has focused heavily on weak-market cities and neighborhoods – raises what I believe is his real concern: not that cities and the geographies of living patterns aren’t fundamentally changing, but that they are; and the changes don’t benefit lower-income populations.

That’s shifting the subject from where he started, but it’s a legitimate issue and a serious one. In some inner cities (in the Rust Belt, for example) the comeback is going to be far slower than in others; in some neighborhoods the influx of newer urbanites could have no positive effect or even negative effects on pre-existing residents. A trend toward walkable suburbs may indeed represent an indication that the Millennial generation has a different set of lifestyle preferences than its predecessors; but it is probably irrelevant to most inner-city, lower-income residents.

I do have a more favorable view than does Mallach of the prospects for older city neighborhoods to reverse years of abandonment and disinvestment to come back. I believe much more than he does that Millennials have a stronger inclination toward urban living than did their predecessors. I think the effects will be lasting.

But I share Mallach’s concern that the current brand of city recovery hasn’t come close to solving the problems that plague poor inner-city residents, including bad schools, chronic unemployment, higher crime rates, and poor health, just to name a few. Smart growth, urbanism, and changing generational values may be real, but they don’t address those social problems. Neither does much else, as far as I can tell: Very little that has been tried over the past several decades has had a pronounced, lasting impact to lift people out of poverty.

That may be tragic, but for me it doesn’t warrant a wholesale dismissal of the many good things going on in cities and metropolitan regions today. It just underscores that we haven’t figured out how to solve some deeply embedded social and economic problems.

I wish I had the answers. I don’t, and as far as I can tell no one else does, either.

Kaid Benfield is director of sustainable communities at The Natural Resources Defense Council in Washington, DC. This blog also appeared on NRDC Switchboard.