

A Tale of



Two Cities

**Long the inhabitant
of central cities,
America's economy
has migrated to the
suburbs and exurbs—
but not entirely.**

By Jason Miller



Prior to World War II, America's cities flourished. Hotbeds of commerce, culture and social interaction, they provided everything families wanted—or at least needed. In-town and nearby residential neighborhoods were built densely, only a streetcar ride away from employment and retail opportunities. Our major metropolitan areas were compact, concentrated affairs, operating efficiently while judiciously using resources such as energy and land.

Things changed after World War II, when a mass exodus from almost every major city drained the populations in those urban areas, sometimes drastically. During the decades following the war, Americans moved out to first-, second- and third-ring suburbs, chasing a dream of more land, lower density, less crime, better schools, higher-paying jobs, cleaner air ... in short, a better way of life. Sensing a trend, many retail, commercial and manufacturing interests followed the outward migration, further damaging some central cities' vitality. Suburbs across America boomed in physical size and population; slowly, the U.S. economy became a suburbia-driven affair, fueled by the decentralized, low-density development pattern and nourished by a business model that some say is tenuous at best and at worst, unsustainable.

But, suburbia seems here to stay—and so too its effect on the U.S. economy. Suburban growth has in some cases surpassed the level claimed by the central cities they once served; the "children" are bigger than the parents. At the same time, however, a renewed interest in the amenities and lifestyle that mature, compact urban spaces can provide has helped some metro areas nearly recover—or at least stabilize—their population levels. The United States is pursuing two development patterns; simultaneous forces that are feeding the growth of suburbia and a revitalization of traditional urban cores. And the economy is following that growth.

History repeats itself

To understand the nature of today's economy and growth pattern, one need only look to precedent both here and abroad, says Robert Bruegmann, professor of art history, architecture

and urban planning at the University of Illinois at Chicago, and author of *"Sprawl: A Compact History"* (University of Chicago Press, 2005). "For 200 years it's been the same: a population pushing outward with a corresponding movement inward, and at different times there's been a difference in strength between the forces," he says.



Las Vegas suburb

"Paris in the mid-19th century was moving out, but there was still an inward countermovement. Lower economic-scale people were moving out; the more affluent folks were moving in: sprawl at the edge and gentrification at the core. That's identical to what we're seeing today in the United States I think what's happening today are centrifugal and centripetal forces that push people out and pull people in; [these forces] are always combining and recombining. That's the way it's been since the beginning of time."

But, if suburban growth is swelling at a faster pace than central city growth, what is moving even faster? According to Bruegmann, exurban growth; i.e., the developing areas beyond what we would consider third-ring suburbs, where the easily recognizable subdivisions end and the two- to five-acre lots begin. "That's probably the fastest growing part of the U.S.," he says. As for which pattern will dominate, Bruegmann favors an inclusive outlook. "It's a messy reality: We're looking at more of the same of all three patterns, but I don't think there will be an effective move of people toward the city."

Our current state of economical affairs is neither right nor wrong, neither good nor bad, it's simply the way things are, says Robert Lang, co-director of the Metropolitan Institute at Virginia Tech in Alexandria, Va., and author of the upcoming *"Boomburbs: The Rise of America's Accidental Cities"* (Brookings Institution Press, May 2007). With more than 50 percent of the U.S. population in the suburbs, "the economy has already left the central city," he says.

According to Lang, even our terminology is becoming obsolete. In 2003, the U.S. Census Bureau

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Minneapolis



stopped using the term "central cities," changing it to "principal cities." "Suburbs" was omitted entirely; instead, "nonprincipal city metropolitan area" became the preferred term.

Why? "Because suburbia is the new metropolis," says Lang. "What people think of as suburbs have a majority of the U.S. commerce—a larger share of office, retail, etc. Fairfax, Va., has a huge economy, bigger than Washington, D.C. And [former suburbs] Naperville, Ill.; Scottsdale, Ariz.; Plano, Texas; and Irvine, Calif.—all are principal cities now."

These new principal cities play host to the majority of commerce in the United States, says Lang, including a huge share of Fortune 500 companies who have chosen to build headquarters and branch offices there. For Lang, the U.S. economy's move from principal city to nonprincipal city metropolitan area is already complete. "You find me one major high-tech company that is in a [central] city," he says. "I dare you."

No conspiracies or fear drive the movement to a suburbia-based economy, says Lang. The reality is much simpler than that: It's a growth pattern based on Americans' preference for lower-density development. Since America has been a land of open spaces ever since the 1800s, there has been plenty of land to accommodate this low-density pattern of growth. And, ever since the 1950s, technological advances have given us the tools to organize that growth into a workable model that many Americans prefer.

Back to our roots

While thousands of Americans are moving to suburbia and exurbia, a growing number are seeking a lifestyle that suburbia, for the most part, has not been able to deliver in any meaningful quantity. This new demographic sometimes seems to be flying under the radar of social commentators, but production builders are taking notice of them and adjusting their strategies accordingly, says Anthony Flint, author of *This Land: The Battle over Sprawl and the Future of America* (The Johns Hopkins University Press, 2006), and a former journalist now at the Lincoln Institute of Land Policy, a think-tank in Cambridge, Mass.

"Almost before it's been studied or realized, the shift from the conventional suburban development pattern to more concentrated urban, walkable environments is happening," says Flint. "For me, the proof of this shift is the big home builders themselves. Toll Brothers is working in Manhattan. KB Homes and Pulte have high-density projects. So does Lennar Homes. These guys don't get into things unless they have a reasonable chance of making money. I think they realize the future is more dense, more mixed-use, more urban. They're looking at urban infill and redevelopment, and what they're calling 'urban villages.'"



Whether these higher-density projects are built on infill lots or in densifying suburbs, someone will choose to live there, says Flint, pointing to 70 million aging baby boomers as a prime target demographic. Recent surveys conducted by the American Association of Retired Persons (AARP) indicate a clear interest in urban neighborhoods, where many daily needs are within a short walk of residences, and a car is not a necessity. This suggests a different type of development than conventional suburban.

Research conducted by the National Association of REALTORS® has found that 70 percent of homeowners feel a shorter commute is important to them—a statistical fact that, while not a smoking gun, certainly points in the direction of desire for higher-density development.

For many, a non-suburban lifestyle may be a foregone conclusion, a decision based on dollars and sense and environmental awareness, says Flint. "The sprawl economy took a beating over the past year. When gas prices spiked, I think people thought twice about how far they were commuting and factored transportation costs into their living arrangements in a more honest way, so that the true cost of getting around the suburban environment became apparent in the family budget.

"With the growing concern over global warming and driving emissions, I think there's a slowly increasing environmental awareness and sensitivity, an awareness that if you live in a more urban neighborhood, you can actually walk for some things or take transit. In this way, urban environments are seen as more energy-efficient. Climate change activists are slowly coming around to this land-use connection. I think consumers are, too."

Christopher Leinberger, a fellow at the Brookings Institution in Washington, D.C., and a partner in Arcadia Land Company (a new urban developer), puts the proportion of Americans who want to live in what he calls "walkable urbanism" at between 30 and 40 percent—even if that urbanism doesn't occur in central cities. "These people want downtowns, new suburban town centers, new lifestyle centers, transit-oriented development, new urbanism. They



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want high-rise and mid-rise condos, townhouses and small-lot, single-family homes, but the key issue for them is that it's within walking distance to something significant: either regional- or local-serving retail and commercial uses."

It's not just consumer research that supports this, says Leinberger, it's the price-per-square-foot figures of walkable vs. drivable real estate. "The walkable product tends to be anywhere from 30 to 200 percent more on a price-per-square-foot basis," he says, even though Arcadia has been seeing a range of 40 to 80 percent. And, even though that price differential can be partially explained by the higher construction and land costs associated with high-density development, it's also the result, says Leinberger, of "underlying demand pressure and the fact that the market is willing to pay it."

Unfortunately, that 30 to 40 percent of the home-buying demographic may have to wait a while to get that walkable urban environment it craves. According to Leinberger's research, most U.S. markets have between 5 and 20 percent of their offerings in a walkable urban condition, a gap that will take decades to close—especially since dense, mixed-use projects are more complex and riskier undertakings than conventional suburban developments.

But those urban environments will never lose their appeal, says Leinberger, because, by their very nature, they deliver a sizzle that suburbia has not yet matched.

"The suburban product is delivered in an insular fashion; the only thing it has to do with the rest of the world is the traffic counts that it shares with its neighbors," says Leinberger. "Walkable urban product is integrated with a variety of different product types surrounding it. Think of downtown Seattle—the retail, housing, Pike Street Market, the new art museum—all of these amenities have to be within walking distance of housing. As more amenities are added, they become huge benefits to the residential and retail components. As you shoehorn in additional housing and amenities, the place gets better, which leads to an upward spiral

of value creation. Rents go up, sales go up, property taxes go up, more people are on the street, enticing more developers to come into the market, adding more complexity, which keeps it spinning further. Once you get it started, it's a pretty exciting place to be."

Will it last?

Can this shift in economy centers sustain itself or will it eventually collapse under its own weight, a victim of flawed assumptions or global realities? Again, the answer is "all of the above."

Robert Lang sees the situation as one in constant flux, adapting to change as necessary. "We have never been a society that built permanence," he says. "The suburban pattern of development is a decades-long—a centuries-long—legacy of a country loaded with land and light with people. This pattern has been land-consumptive—although there's still plenty of land left in the United States—and wasteful of resources. But, hybrid cars and renewable energy resources are more likely outcomes than a reversal of the built environment."

Lang points to quasi-urban developments cropping up in suburbs as approaches likely to increase in the coming decades. "They're creating more pedestrian-oriented places with more mixed-use components configured to higher density," he says. "There's a focus on nodes of density, as in Fullerton, Calif., and Plano, Texas. Denver has a huge light-rail project under way, with a great emphasis on diversity and complexity of uses. So does Phoenix."

If suburbia continues with its "business as usual" attitude for much longer, however, it may be in for a rude awakening, says Anthony Flint. "The sort of 'what's wrong with sprawl?' argument is lacking in some creativity for me these days, because we're not dealing honestly with our uncertain future. What is the answer, in terms of these living arrangements and our dwindling fossil fuel supply? What is the answer for how people can continue to function in car-dependent environments when global warming is such a clear threat?

"It's almost a matter of security for Americans, being out in these far-flung developments. But security from what? Terrorist attack? A flagging economy? Crime? Those are the traditional reasons, but there's a different kind of security that's emerging, having to do more with how one can support a family while paying a lot more for gas, heating and cooling a 3,000-square-foot home, and food that has to travel over long distances and is growing more expensive because of energy costs. In that context, I think we can look at security in a different way."

For Leinberger, suburbia is a necessary evil of sorts, since the demand for walkable urban environments cannot be satisfied entirely in the nation's existing downtowns; they're not large



enough. He believes the demand will be met mainly in the existing suburbs, which will need to urbanize appropriately. "Five to 10 years from now, probably 60 to 70 percent of the demand will be satisfied in what we now call the suburbs; 30 to 40 percent will be satisfied within the central city limits."

America's economy largely has followed its people from the central cities to its suburbs. Even though a significant flow has begun to move back to the

country's larger urban cores, the scales seem tipped to the side of suburbia, a trend that shows no immediate sign of changing. The suburbs have the populations and the components to maintain its strong economic vitality. Whether they will morph into the complex, central-city model of commerce, culture and social interaction remains to be seen.

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WEATHERING THE DOWNTURNS

When the housing market slows, do Smart Growth projects perform better than their conventional suburban competition? Anecdotal evidence and some early research seem to indicate they often do, although some markets disprove that assertion.

According to a Reuters report released in February 2007, close-in, higher-density suburbs are performing better than distant exurbs in housing price, volume and the length of time it takes to sell properties. Arthur C. Nelson, director of the Alexandria Center of Virginia Tech's School of Urban Affairs and Planning, also has generated data that indicates higher-density housing generally fared better during the recent market downturn.

In a January 2007 report titled "The Market Acceptance of Single-Family Housing Units in Smart Growth Communities," authored by Mark Eppli, professor and Robert B. Bell, Sr., Chair in Real Estate at Marquette University in Milwaukee, Wis., and Charles Tu, associate professor of Real Estate at the University of San Diego, hard numbers demonstrate the ability of Smart Growth communities to sustain price premiums.

Eppli and Tu analyzed 4,744 actual single-family housing sale transactions between 1997 to 2005 in the Smart Growth developments of Kentlands and Lakelands in Gaithersburg, Md., and in non-Smart Growth developments in Montgomery County, Md., measuring the possibility of a Smart Growth price premium and the sustainability of that premium. The study employed approximately 30 control variables—such as lot size and house size—to produce as accurate a result as possible. Their analysis revealed a price premium for Kentlands and Lakelands of 16.1 percent and 6.5 percent, respectively, over comparable houses in surrounding conventional subdivisions. That translates to an increase in sale price of \$35,000 to \$42,000 per home in Kentlands, and \$10,000 to \$15,000 per home in Lakelands. The Kentlands percentage was actually an increase of a previous, similar study from Eppli and Tu, which had studied the same segment of housing type from 1994 to 1997 and found a 13 percent price premium (Lakelands was not built out at the time of that earlier study). The consistently higher price premiums over an extended period prove two points:

- A significant segment of homeowners are willing to pay more for a home in a Smart Growth development, as opposed to a conventional suburban subdivision; and
- Smart Growth developments have the potential to be more resilient during market fluctuations.

In addition to the numbers, there is abundant anecdotal evidence of new urban neighborhoods trumping their sprawling neighbors in both price and volume during the market slowdown. Donna Arbogast, REALTOR® and sales manager at East Beach Realty, selling properties

at East Beach in Norfolk, Va., says a large part of their success is attributable to the uniqueness of the community, its location and the character of its architecture. "There's nothing to compare it to in our market," she says, "so even though we're not immune to the outside market, we certainly have a buffer."

Barbara Warner, sales and marketing manager for Hedgewood in Cumming, Ga., says her firm's projects in the Atlanta area—such as Vickery and Woodstock Downtown—demonstrated a notable resiliency when the market pulled back. "When people had a choice and the values were the same, they chose the mixed-use neighborhoods. That's what people love. If they have a choice of being out in the suburbs with other houses that look just like theirs, or being in an urban setting with most conveniences nearby, they choose the latter—especially in Atlanta."

Sometimes, however, no level of quality can pull a market out of its doldrums.

In Miami, a glut of condominiums caused that market to slump beginning in April 2005, a slowdown that only worsened as September approached, says REALTOR® Ron Shuffield, president of Efflinger-Wooten-Maxwell REALTORS® in Miami. "This wasn't related to style or pattern of development," he says. "We simply have more inventory than ever before in our history—both for condos and single-family houses.

"The condo situation is worse, though, because as sales began to decrease, inventory began to increase. In April 2005, we had 14,000 homes (single-family and condo) on the market in Miami and Fort Lauderdale. Currently, we have 74,000."

In the opposite corner of the United States, development patterns carried virtually no weight in driving sales, says Lester VanMersbergen, a REALTOR® with Windermere Real Estate in Lynden, Wash. "We went through a dip in prices and sales starting in November 2005 and ending around October 2006," he says. "The slowdown affected every area of town; it didn't play favorites."

That statement is significant, since Lynden has virtually every kind of typical housing options in a smaller town (pop. 10,000), from established traditional neighborhoods to newer suburban development. It even offers Greenfield Village, its first attempt at a full-fledged TND, with starter homes beginning in the \$230s.

But, no matter the neighborhood, no matter the price range, buyers were basing their decisions on the dwellings themselves, says VanMersbergen. "Buyers are paying attention to the houses, not so much the neighborhood," he says. "If they were looking for an entry home, they bought in Greenfield Village or chose a smaller home in Homestead (the suburban subdivision). If they could afford a larger house and lot, they bought it."

