Urban Living Infrastructure

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INTRODUCTION

JOHNSON GARDNER was retained by METRO’s Transit Oriented Development Program to research the pricing effects of urban living infrastructure. The objectives of the work were to:

Document if and by how much urban living infrastructure improves the financial feasibility of mixed use residential development.

Determine if public investment in urban living infrastructure is a cost-effective strategy to catalyze centers development.

Transit Oriented Development [TOD] Program

Metro’s growth management plan, the 2040 Growth Concept, calls for the region to grow up rather than out, away from farm and forest land by limiting expansion and focusing growth around the region’s 44-mile MAX Light Rail Transit (LRT) line, along frequent bus corridors and in mixed-use urban centers. The TOD Program pursues the Growth Concept by providing public investments to developers to build more intensely and with higher attention to creating a walkable environment than the market would complete on its own. A transit oriented development will result in a higher share of travel from transit, walking and biking and a lower percent by an automobile.

For more information or a copy of the full report, contact Megan Gibb, TOD Program manager, at 503.797.1753 or megan.gibb@oregonmetro.gov, or Bill Reid, Johnson Gardner principal, at 503.295.7832 or wer@johnson-gardner.com.
Executive Summary

An entire industry has arisen dedicated to the concept of “Placemaking”, which recognizes that an agglomeration of activities and amenities is a critical aspect of an urban experience. Placemaking is a term that began to be used in the 1970s by architects and planners to describe the process of creating squares, plazas, parks, streets, and waterfronts that will attract people because they are pleasurable or interesting. While widely discussed with anecdotal evidence, to date there has been little if any substantive analysis of the marginal impact of the amenities associated with an urban experience on achievable pricing. This study addresses the missing substantive evidence of the relationship between a range of urban amenities and pricing.

Successful urban environments represent a marketable amenity, the value of which is reflected in higher effective pricing for residential units. This higher pricing is necessary to support the intensive and costly development forms associated with more urbanized areas. As achievable pricing is one of the key impediments to realizing higher density residential development, increasing the supply of urban amenities in a district can be an effective strategy to encourage targeted development forms.

Development of a greater number of residential units within walking distance of a commercial concentration increases the viability of that concentration, attracting a superior tenant mix that then increases the premium for residential uses. This virtuous cycle of investment and reinvestment has been seen in many of Portland’s successful commercial districts. The benefit of this type of development pattern accrues not just to new construction, but to the broader neighborhood as a whole.

Hedonic statistical modeling of 2006 home transactions proximate to various urban amenities revealed a range of price premium estimates for recent home sales, all else equal. In general, we would consider the tenant types classified and evaluated in this study to represent desirable neighborhood amenities, and would expect them all to have a positive impact on values. The results of the study did not confirm this relationship for all categories of tenants surveyed, which may be explained by the limited range of the study. Calculations of price premiums at the extreme ends of the amenity range expressed above are likely not robust and likely are sensitive to statistical specification.
For a number of amenity types the sample size was limited, reducing the reliability of the indicated results.

The results also varied depending upon the type of residential product. The relationship between the tenant types identified was almost universally positive for condominium units, which offer a greater degree of separation from some of the negative externalities associated with these types of uses. It must be noted, however, that the sample of attached home sales in the study was not large (148 transactions) and estimated values of urban amenities (model coefficients) were rarely statistically significant.

Even so, attached projects tend to address their parking needs on-site, and have a greater degree of security and separation from street-level activity. As marginal new development activity in urban areas is likely to take the form of condominiums, the relationship between urban infrastructure and condominium pricing is probably more important from a policy perspective than the more general impact on residential pricing.

The results of the study indicate that the proximate availability of a range of urban amenities have a substantive impact on achievable residential pricing. Financial viability has been consistently identified as the primary obstacle to achieving higher density urban development forms in many markets. As achievable pricing is directly related to project viability, this study indicates that a strategy to support and expand the urban amenity base in an area is supportive of realizing more urban residential development patterns.

The primary benefit of urban amenities is related to convenience, often expressed in savings in time and travel cost. The ability to reach a number of amenities within a pedestrian range is of particular value. The aggregation of these services provides an urban experience, allowing for residents to increase their “dwell time” in the area. While our analysis indicates that a priority should be placed on major amenities such as a cinema and specialty grocer, these amenities require a minimum threshold of market depth not found in all locations. An alternative strategy to attracting a tenant such as a specialty grocer is to attract a smaller-scale tenant providing a similar range of services. A specialty grocer may provide for grocery, butcher, bakery, card shop and florist services. An aggregation of tenants providing similar services can provide a comparable amenity base.

While amenities can add value, it should be noted that some tenant types can
reduce values. Some of this is related to configuration, as parking conflicts appeared to impact residential values in areas with limited parking availability. As noted previously, this appears to primarily impact single family homes more than condominiums. A similar split impact is seen with bars and nightclubs, which can add a disamenity to single family residences within close proximity.

A range of urban amenities is a critical component of an “urban experience”, which adds value to an area that can be realized in higher achievable pricing for residential development. Our study identifies a substantive impact on achievable pricing associated with a range of tenant types. If it is public policy to encourage more urban residential development forms, encouragement of an urban amenity base is directly supportive of this policy. Developing a more marketable urban experience assists both new development, as well as providing significant marginal value to existing residents.

Metro’s resources in the TOD Program are quite limited, and investments should work with the market and leverage private investment with targeted public investments. We see two major roles for the program. The first of these would be what can be referred to as “proof of concept” investments, supporting projects that test and hopefully demonstrate market support and achievable pricing for a targeted development form. Examples of this type of intervention would be The Crossings at Gresham Station and North Main Village in Milwaukie, both of which demonstrated that a significant premium could be achieved for untested urban development forms in these markets.

The second type of investment would be related to increasing the attractiveness of a center, thereby generating a marketable premium that would be reflected in higher achievable pricing. This could include infrastructure investments (quite expensive), common area improvements (parks, plazas, streetscape), and active support for targeted “urban infrastructure” that have a demonstrated positive impact on achievable pricing (specialty grocers, theaters, etc.). An example of an investment type that this analysis would support would be providing funding to assist in the renovation and possible expansion of a theater, a restaurant, café, or bookstore within a center. Our analysis would indicate that this facility would increase achievable pricing in the area, directly impacting the viability and form of future residential development.