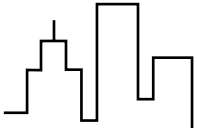


THE COUNCIL FOR INVESTMENT
IN THE NEW AMERICAN CITY



OCTOBER 2000





THE COUNCIL FOR INVESTMENT IN THE NEW AMERICAN CITY

A REPORT ON THE CHANGING REALITIES OF CITIES

This report represents the first step taken by The Council for Investment in the New American City to generate discussion and focus attention on city reinvestment, over-development in suburbs, rising housing costs and traffic congestion. The Council for Investment in the New American City is a partnership between the nation's mayors and the leaders in the financial lending and development industries, established between the U.S. Conference of Mayors and the Mortgage Bankers Association of America. The purpose of the Council is to provide a forum for mayors, lenders and developers to dialogue on city revitalization issues and develop national policies and strategies on ways to make cities a place where people want to live, work and play.

Importantly, the Council's formation marks the first time mayors have come together in an official capacity with the nation's top financial lending and development leaders to confront and address the new realities in America's cities today. These new realities have demonstrated that a thriving economy generating jobs and reducing poverty also can create or exacerbate problems as well as present challenges and opportunities. Indeed, cities are on the come back with the renewed interest of downtown or near downtown living. Employment is up. Poverty is down.

At the same time, though, housing is out of reach for more than just the poor. In many cities, moderate-income residents and the middle class are priced out of both rentals as well as homeownership. The search for affordable housing has driven many to live farther away from employment centers, placing new burdens on the suburbs, choking our transportation systems, and forcing people to spend more and more time in their cars or on under-funded public transit that rarely meets all the needs of working families.

A new type of leadership is needed to find direction on how to deal with these new realities and bring city and suburban residents and community leaders together to identify common interests, for the good of all. The Council will help provide this leadership through a number of activities and programs. They include polling on city and suburban living, conducting national and regional educational summits across the country, preparing "Best Practices" publications and developing a national policy dialogue, including issue formulation and legislative and regulatory analysis.

To establish a baseline on public support for city reinvestment, the Council commissioned a nationwide telephone poll of 1,400 city and suburban residents on their attitudes about public and private initiatives to rebuild cities, encourage city living, discourage over-development in the suburbs, help working families afford housing and reduce traffic congestion, among other issues related to city and suburban life.

The findings build a compelling case on the public's interest in these issues and a reason for political leaders to engage in substantive discussions that can lead to effective policies on city revitalization and suburban growth. Supporting the Council's position that a national policy proposal is needed, the poll reflects strong support for public and private initiatives to invest in cities and public transportation, as a way to reduce traffic congestion and control over-development in suburbs.

Two-thirds (67%) of those polled support rebuilding cities and relying more on public transportation, as opposed to building new roads; only 26% favor building new roads. Importantly, this finding surfaces common ground between city and suburban residents and, as such, is extremely germane to Congress and other political leaders, policy makers, and the public and private sectors as they seek solutions to the rising cost of housing for the poor as well as the middle class and worsening traffic conditions, commute times and suburban sprawl.

Historically, suburban and city residents have not always shared common agendas on public and private initiatives aimed at housing, transportation and growth. However, the Council's survey pinpoints one area of agreement: 68% of city residents and 66% of suburban dwellers said rebuilding cities and relying more on public transportation is the most effective way to solve traffic congestion and the impact of sprawl.

Significantly, strong support by city and suburban dwellers — especially among young women — exists for public and private efforts to help people afford housing, improve public transportation and discourage over-development in the suburbs. Two-thirds (67%) said they support increasing public and private incentives to help families buy or rent in cities — 74% in the city; 62% in the suburbs. Eighty-two percent of women between 18 and 34 support such incentives.

More than half (52%) support encouraging people to live in cities in order to discourage the over-development of suburban areas — 59% of city residents and 44% of suburban residents. And, 77% supports the use of tax dollars to help improve public transportation where they live — 81% of those living in the city and 73% of those living in suburbs. Men, making \$35,000 - \$75,000, are more likely to support encouraging people to live in the city (64%) and are more likely to support the use of tax dollars to help improve public transportation (91%).

Another area of agreement between suburban and city residents is how they describe the best aspect of living in the suburbs. A "quiet/calm" environment was cited most often (23% by both city and suburban residents) as the best aspect of living in the suburbs. Surprisingly, a small number of both city and suburban respondents cited good schools or low crime as best aspects. Only 6% of city residents cited good schools, compared with 5% of suburban residents; nine percent of city residents cited low crime, compared with 13% of suburban residents.

While traffic congestion and housing costs are the two most troubling problems identified by those polled, there is optimism about the availability of jobs. Issues around housing costs, traffic and jobs are all intertwined as more people seek less expensive homes farther and farther away from where they work. And, as we welcome prosperity and the benefits it brings, salary hikes are not keeping pace with housing spikes.

Seventy-two percent of the respondents said traffic was worse; 41% said commuting time was worse; 55% said access to public transportation had stayed the same or gotten worse in the past five years. More than half of the suburban residents (51%) and city residents (55%) said traffic, long commutes and little public transportation were the worst aspects of living in the suburbs.

Not surprisingly, the poll found that a majority of respondents felt the availability of jobs had gotten better, while the cost of housing had gotten worse. Sixty percent said the availability of jobs has gotten better, while almost two-thirds (62%) say the cost of housing has gotten worse in the past five years — 59% of city residents and 66% of suburban residents.

The housing cost finding also cuts across income levels, making the case for public and private initiatives to help make housing more affordable for not just the poor but moderate-income and

middle class families as well. Sixty-three percent of those who said housing costs have gotten worse have incomes between \$35,000 and \$75,000; 57% have incomes under \$35,000.

The finding that more people in the suburbs than in the city feel that crime levels have gotten worse challenges the traditional view that suburbs are more immune to crime and public safety concerns. Thirty percent of suburban dwellers, compared with 23% of city residents, feel that crime levels have gotten worse. As further evidence that city residents are becoming more confident about where they live, 38% of city residents feel that crime levels have gotten better, compared with 22% of suburban residents.

Additional findings of interest include strong support for helping public servants afford housing where they work. Seventy-four percent said affordable housing should be made available to public servants, such as teachers, fire fighters and police officers so they can live in communities where they work – 82% of city residents support such efforts; 67% of suburban residents.

More than half of the respondents (56%) said it was worth living in a smaller home if it meant reducing their commute to work, while only 34% said they would accept a longer commute for a larger house.

Importantly, this poll will be used as a baseline to measure how city and suburban residents' attitudes change over time about many of these issues. In this context, it is helpful to register the interest among suburban residents about moving to and living in the city.

The common perception that suburban residents universally wish to avoid the city is challenged by the finding that one in eight suburban residents is either very likely or somewhat likely to move back to the city. Of those, 32% are men between the ages of 18-34, and 24% are men who make less than \$35,000.

An abundance of nearby shops, grocery stores, pharmacies and other services, such as dry cleaning, is ranked as extremely important by 69% of those who would be very or somewhat likely to consider a move into the city. A majority (59%) said financial housing incentives, such as downpayment assistance and tax credits would be extremely important when considering such a move. Again, a majority (62%) said availability of cultural events, entertainment and education opportunities would be extremely important. Forty-four percent said reduction in the time and the cost of commuting would be extremely important.

Interestingly, 58% of city residents said they are not very or not at all likely to move to the suburbs. Of those, 65% own their home.

Almost a third (32%) of suburban residents said that in the past five years, they have been spending more time in cities. Of those, 39% said they have been spending more time in cities because of work; 37% because of entertainment or cultural activities.

The poll, conducted by the Global Strategy Group for The Council for Investment in the New American City, measured attitudes of residents in seven cities: Atlanta, Boston, New Orleans, Phoenix, San Jose, St. Louis and Washington, D.C. About 66% were Caucasian; 19% African American, 6% Hispanic/Latino, and 5% Asian. The majority of the respondents earned incomes between \$25,000 and \$100,000. About a third were renters, and 65%, homeowners. More than half (54%) were married; 26%, single.

This report on the changing realities of cities is the first of several to be prepared and released by The Council for Investment in the New American City as part of a five-point plan announced by the Council to help develop a national policy proposal for Congress and other political leaders. The plan includes:

- I. Conducting regional education summits across the country from January to April 2001 to inform the public on city revitalization issues, share information about successful financial and development projects for cities and gather ideas and input on a national policy proposal and city revitalization strategies.
- II. Holding a national summit with mayors and the private sector to address key policies and issues affecting and promoting city reinvestment, within 120 days of the congressional session in Washington, D.C. next year. Some of the key issues that will be addressed by the Council at both the national and regional summits include:

Incentives and strategies for transit-oriented mixed use development

Options to encourage private investment and lending into both inner-city redevelopment and efficient patterns of development in high-growth areas outside the urban core

Incentives and barriers to private finance in housing (rental and homeownership), retail and commercial development

The affordable housing crisis: the explosion of working poor and its effect on national housing policy; the growing housing crisis for middle class families; innovative down-payment assistance programs; low-income tax credit for new homeowners; location-efficient mortgages; retooling existing housing program

Tax credit for employers who give their employees assistance, such as down payment funds, when buying a home

Reduction of local and federal barriers to reduce the cost of home production.

Construction defect litigation, land availability, zoning and tax base policies and other factors

The promotion and access of programs to advance financial literacy among residents

Protection against predatory lending

Expansion of the Hope 6 public housing program

Financial incentives to stimulate market support of businesses that build metropolitan economies

Efforts to stimulate private investing and lending in urban brownfields that will complement federal grants

Conducting surveys and providing ongoing research into central city livability for the general public as well as for government officials, planners and researchers.

Sharing and promoting "Best Practices" through numerous publications and Web sites of what has worked and has not worked in cities around the country.

Marketing of Council-sponsored programs to raise media and public awareness and ultimately drive participation by the general public.

What is happening to America's cities? For the past twenty years, the answer has been rather straightforward, as most of our larger central cities transferred residents and jobs to growing suburban areas. Even in regions with stagnant metropolitan growth, the shift of people from cities to suburbs has been dramatic. But the consequences of this shift—the "sprawling" of America—have been capturing headlines across the country as traffic congestion, loss of open space and prime farmland, and rising housing prices have begun seriously affecting the quality of life of larger numbers of people regardless of location. The old "city/suburb" divide is being replaced by a more urgent set of concerns: the health and livability of metropolitan areas depends not just on livable suburbs, but livable cities as well.

At the same time that central cities have lost ground, they have also begun a prolonged comeback. It is not farfetched to suggest that America is on the cusp of a new urban renaissance. America's central cities are seeing investment surge in redeveloped downtown and in-town neighborhoods, even as regional concerns with "smart growth" have raised interest in channeling even

City of Chicago—Innovation and Leadership

The City of Chicago is at the forefront of a number of efforts to restore the desirability of city living. Central to these efforts is the leadership of Chicago Mayor Richard M. Daley in establishing effective public-partnerships and promoting innovative approaches to improving quality of life and opportunities for Chicago's residents.

One such innovative program is the Location Efficient MortgageCM (LEMCM), a product that allows a portion of the potential savings from the use of public transportation to be used as additional borrower income in qualifying for a mortgage for homes in densely populated communities with efficient transit services. As a rule of thumb in Chicago, households that choose to live in location efficient zones can increase their home buying power by an amount equal to one year's income.

A product of a partnership between Fannie Mae, the nation's largest source of mortgage funds, and the Institute for Location Efficiency (ILE), a non-profit research organization founded by the Center for Neighborhood Technology, the Natural Resources Defense Council, and the Surface Transportation Policy Project, the LEM is an example of Chicago's commitment to "decreasing traffic congestion and pollution, increasing homeownership opportunities and encouraging the use of public transportation," according to Mayor Daley.

This spirit of innovative partnerships also extends to the Chicago Public Schools (CPS), which were taken over by Mayor Daley in 1995 as part of a concerted strategy to reform and improve the entire system. One such partnership—between the schools and the Public Consulting Group (PCG), has significantly improved the delivery of health services to over 50,000 students enrolled in special education at CPS, cutting costs, improving Medicaid reimbursement rates, and having a measurable impact on the quality of special education services.

more development back into the urban core. This shift in attitudes is dramatic; a recent survey of both urban and suburban residents of seven large American metropolitan areas found that two-thirds of respondents favored relying more on public transportation and rebuilding cities to lessen the impacts of sprawl, compared to building more roads.

Cities all across the nation can point to bold projects which are being implemented on a scale not seen in decades, efforts which will transform both the reality and perception of urban life. Many times, these projects are succeeding despite numerous challenges and barriers that have accompanied attempts to redevelop urban lands. The lessons being learned from these experiences suggest the direction that national, state, and local policies might move to further strengthen and expand the scope of the renaissance taking place in our cities.

America's central cities have turned a corner in their struggle to be reborn. Crime is down, employment is up, poverty is decreasing, and urban homeownership rates are rising. Cities as diverse as Chicago, Cleveland, Atlanta, and Boston have seen their populations stabilize and even rise. City after city can point to neighborhoods that are being revitalized; downtowns that are becoming exciting environments in which to live, play, and work; and major new partnerships and initiatives that promise further improvements in the quality of urban life.

Indeed, investment and people are beginning to move back into urban core areas at rates unimaginable even five years ago. Behind this move are two significant groups: new immigrants, who bring their drive, ambition, and diversity to core neighborhoods, and childless suburban residents, both older and younger, who are seeking the excitement, cultural richness, and convenience of close-in urban living.

City of Memphis—Making Housing More Affordable

Memphis Mayor Dr. W.W. Herenton was concerned with his city's loss of middle income families to suburban areas during the 1990s. He responded with a strategy to encourage "the revitalization and retention of households within the existing neighborhoods in the city limits, as well as encouraging new residential development in the city." One of the centerpieces of this strategy was an innovative down-payment assistance program targeted to middle-income families who bought new or existing homes within the city limits. This program, developed in partnership with Fannie Mae, provides qualified borrowers with a second mortgage to cover down payment and closing costs on homes in the City of Memphis.

The availability of down-payment assistance has put homeownership within reach of Memphis families who otherwise would not have been able to afford it. Another strength of the program is the way it complements the city's other housing assistance programs, geared to lower-income households, thus making it easier to plan and develop mixed-income residential projects.

New immigrants overwhelmingly choose central cities, where they are more likely to find the dense web of family, cultural, and home-country institutions that have always played a role in enabling new arrivals to transition into becoming productive residents and even citizens of the United States. New immigrants have helped transform run-down neighborhoods into vibrant centers of urban life and opportunity. Perhaps nowhere is this transformation more apparent than in the Ironbound section of Newark, which has become home to Portuguese-speaking immigrants from Europe and South America. Immigrant energy has raised land values in Ironbound to the point where housing prices meet or exceed the New York metro region average.¹

In contrast to the outer urban neighborhoods that have catered to new immigrants, downtowns have been the prime target of the new “urban suburbanites.” The diversity, range, historic quality, and even desirable density of many older in-town neighborhoods have begun attracting sophisticated, higher-income households back to the urban core. Some downtown neighborhoods, such as Denver’s LoDo district, have seen residential valuations throughout the 1990s increase at a faster rate than most suburban homes.² In a surprising change of heart, one recent poll showed that one in eight suburban dwellers now feel it very or somewhat likely that they will move from the suburbs to the city.³

There’s a strong demographic component to this awakened interest in downtown. The typical “Ozzie and Harriet” image of a household—working father, stay-at-home mom, and children—now represents perhaps 7% of all households.⁴ In fact, households with school children now account for barely a quarter of all households. Baby boomers, by far the largest demographic block, increasingly live in empty-nester households, and while most will remain in the suburbs, there is a sizable share that wishes to return to the city,⁵ representing a huge market for downtown and other in-town markets. Likewise, the children of the Boomers have been showing an interest in the kind of 24-hour neighborhoods and urban lifestyle that downtowns are increasingly able to provide. More than one wry commentator has noted the increasing tendency for Boomer parents and their adult offspring to find themselves living in separate units in the same or neighboring downtown loft projects.

A recent Brookings Institute study documented how strong downtown recovery has taken hold. Of twenty-four cities surveyed, every single one expected downtown population to grow—some by up to 400%—over the next twenty years, with newcomers preferring the inner city because they would eliminate commutes, avoid traffic jams and enjoy a richer, more varied social life than can be found in the suburbs.⁶

In some cases, the rise in downtown living is dramatic. Dallas, which recently opened an impressive light rail system, saw in-town apartments grown from 4300 units in 1997 to 6900 units—a greater than 50% increase—just two years later. What’s even more impressive, even with the rapid growth of this market, vacancy rates were under eight percent, indicating ravenous demand.⁷

Denver is another downtown success story. “LoDo,” Denver’s Lower Downtown neighborhood, has seen a surge in residential units, many of them innovative in design, as well as new entertainment and recreational opportunities (including an exciting ballpark). New housing is now being developed in surrounding downtown neighborhoods.

San Diego, too, has transformed a downtown which even twenty years ago was known more for blight and a notorious red light district than for anything else. The Centre City Development Corporation (CCDC) lists billions of dollars in new projects planned or under construction, including a large number of residential projects. Market demand is so strong that the apartment vacancy rate is essentially zero percent. CCDC projects that downtown's residential population will reach 50,000 people by 2025, and will be housed in over 25,000 new housing units.⁸

But if more and more cities now sport revitalized downtowns, with their 24-hour activity, concentration of cultural and recreational amenities, and "urban-style" living, the emerging urban renaissance goes beyond just the very center to tie together outlying nodes of urban activity. Transportation systems are as much a part of urban rebirth as are vital downtowns. If the growth in traffic congestion highlights the role that mobility plays in defining quality of life, the extent to which cities can provide effective mobility alternatives will determine in great part their success in attracting people and jobs in the future.

Indeed, one of the striking features of the emerging urban renaissance is the commitment of literally dozens of cities to planning and building new transit systems, coupled with a concerted effort to locate transit-friendly development around key nodes in these systems. These plans have been growing increasingly sophisticated in recent years, and have begun taking advantage of a wider variety of modes in order to implement more effective services in less time at less cost than has been the custom in the past.

Perhaps no city illustrates the new attitude to transportation and land use better than Charlotte, North Carolina. The Queen City—and surrounding Mecklenburg County—recently developed a new transit plan intended to provide high-grade service along five key corridors radiating out of their commercially important downtown, a national banking center. Rather than employing a "one size fits all" approach to transit systems development, each corridor will be served by the mode that best fits its present and projected urban form. The combination of light rail, commuter rail, and busways will all function as a single system, but will allow Charlotte to implement its transit vision in less time with less money and greater impact than a traditional plan might have allowed.

Transit, though, is not at the core of Charlotte's plan; rather, transit is seen as the means by which to direct growth and "density" so that livability and mobility are preserved. Noted transit expert Robert Cervero of U.C. Berkeley has drawn attention to the possibilities inherent when transit systems are tied to land use visions.⁹ By this measure, Charlotte is taking the bull by the horns; fully 55% of the multi-family housing expected to be built in Mecklenburg County over the next 25 years is planned for one of these five transit corridors.

Portland, Oregon, is another city that has made the transportation/land use link a central feature of its growth plan. Portland has used its Max light rail line as the organizing component of a land-use plan that relies on dense, compact, mixed-use developments centered on rail stations in order to provide needed housing opportunities. The focus on creating a mix of housing types at higher densities than typical development patterns is producing a surprising bonus: though overall housing prices have risen in Portland in the 1990s, housing affordability has actually improved in recent years, in stark contrast to areas like Atlanta, where, even with relatively unchecked sprawl providing cheap new land for development, housing affordability has actually worsened.¹⁰

Public transit is not a cure-all for traffic congestion; at its best, it provides an effective means of mobility and allows for the kinds of development—denser, more walkable—that generate less traffic and reduce the need to drive. Unchecked sprawl, on the other hand, increases both the need to drive and the number of miles many people end up driving. This is why areas like Kansas City, with by far the greatest amount of road and freeway miles per capita of any American metropolis, are paradoxically beginning to experience worsening congestion.¹¹

City of Detroit—The Recovery Begins

The City of Detroit is a city in recovery. Following decades of decline, Detroit is turning the corner, fueled by the HouseDetroit initiative. This partnership between the City of Detroit and the Fannie Mae Detroit Partnership office has already helped nearly 10,000 families find quality, affordable housing in the city since April, 1997.

Key to the success of the HouseDetroit initiative has been the development of a broad coalition of groups that focused on making it easier to build and develop affordable housing in the city's neighborhoods by removing regulatory barriers, improving procedures, and modernizing state and local laws. This group included Detroit Mayor Archer and his staff, the Department of Planning and Development, the Detroit City Council, the Governor, the State Legislature, Detroit area lenders, realtors, the business community, a broad coalition of nonprofit housing organizations, and Fannie Mae. As a result of their efforts, single family building permits surged eight times from 1996 to 1999, with thousands acquiring lots and properties for renovation or incorporation into existing residential properties.

For working families, HouseDetroit has meant rising home values, decreasing levels of violent crime, and increased homeownership among their neighbors and family members.

Traffic congestion and the loss of open space have become national issues. While many regions have flirted with no-growth or slow-growth measures, more residents are beginning to call for directing growth back into the central cities. Indeed, more people are beginning to recognize that aggressive sprawl, with its attendant traffic impacts, is fundamentally a costly and undesirable model of urban development.

The State of Maryland, under the leadership of Governor Parris Glendening, is an excellent example of this latter point. While other regions may legitimately argue that they have plenty of land upon which to grow, Maryland has run up against the limit to how extensive its urban areas may become; urban sprawl is projected to use up 27% of its remaining open space—including its most productive farm land—in the absence of alternative growth scenarios.

Maryland's response to the threat to its remaining open spaces relies on a combination of incentives and disincentives. Rather than draw an "urban limit line" around its cities, it has adopted a

more pragmatic approach, limiting state infrastructure dollars to “priority funding areas,” (made up of the state’s cities and designated non-incorporated growth areas). The state is also proposing new compact development units of at least seven dwelling units per acre, which will be the subject of additional attention.¹² Likewise, the state is making a significant investment in improving urban transportation, with a goal of doubling transit ridership over the next 20 years. Maryland’s approach is pragmatic: by better husbanding existing investments in infrastructure, it can avoid the long term costs of maintaining infrastructure not needed to meet the needs of its population.

What then becomes of areas with existing infrastructure? Those areas with perhaps the greatest capacity to absorb future growth are urban and first-belt suburban neighborhoods. Urban neighborhoods, in particular, have been the target of an increasing number of efforts, led by coalitions of community development organizations, governmental agencies, developers, and the real estate finance community. While some of these neighborhoods have been undergoing gentrification based on their own locational and resource advantages, some of the most problematic of inner-core neighborhoods—public housing projects—are being transformed into mixed-use, mixed-income “urban villages.” These efforts, coupled with parallel efforts aimed at improving the livability and viability of communities, such as neighborhood policing and school reform, have helped create the basis on which the new urban future will be built.

The development of urban villages is one concrete outcome of the New Urbanism movement, which has sought to reestablish the pedestrian-based, mixed-use neighborhood as the core unit of urban life. Though many of the first New Urbanist projects have been located on suburban green-field sites, the principles of New Urbanism, which emphasize urban development scaled to the pedestrian, are finding their way more and more into efforts to reinvigorate cities.

Across the United States, public housing projects, typically consisting of mid-rise or high-rise towers set apart from the streetscape, are being rebuilt along urban village lines. Columbia Point in Boston and Cabrini Greens in Chicago are two examples, where high-rise towers have been demolished, street-facing row housing built, and housing diversified to offer options even for middle and upper-middle income groups.

All told, these many efforts aimed at stimulating the new urban renaissance—renewed downtowns, effective transportation systems, neighborhood renewal, and coalition building—are the product in part of enlightened leadership. A new class of political leadership has emerged in many cities, with more mayors spearheading a host of reforms, initiatives, and partnerships that are having a measurable impact on improving the attractiveness of urban life. Municipal leaders in Philadelphia and New Haven, for example, were able to turn around near-bankruptcy situations, cutting taxes, boosting infrastructure investment, and expanding services in the process.¹³

The stabilization and revitalization of America's cities is happening just as the need for new solutions to the problems of housing working families is being felt across the nation. Many of our nation's central cities have the ingredients necessary to help meet these needs—available housing stock, developable land, workable transportation systems, and a full complement of infrastructure—but state, local, and national policies will need to ensure that these resources can be effectively deployed.

The soaring economy of the past eight years has generated considerable wealth, but it has also forced housing prices up across the nation. In too many urban areas now, housing has become unaffordable for even middle class households, forcing such families to search for homes at greater and greater distances from employment centers. Fifty and sixty mile commutes have become “normal” in some areas, clogging up roads and threatening quality of life region-wide. The problem of affordability is most acute paradoxically in those regions that are most prosperous, such as Silicon Valley, centered on San Jose and Santa Clara in California. The problem has become so severe, a recent study found that 30% of Silicon Valley firms surveyed would consider relocating to other tech hubs.¹⁴ With median house prices hovering around a half million dollars,¹⁵ even upper-middle income families have no choice but to live extraordinary distances from their jobs. A coalition of Silicon Valley employers has been working closely with municipal officials to develop new housing closer to employment sites, especially along light rail corridors, but it is clear that more efforts are needed if housing is to be provided within the purchasing range of more households.

The demand for housing is prevalent not just among traditional home buyers, but among a widening base of American society. The economic changes sweeping the United States, including the dramatic reduction in minority unemployment rates and the success of “welfare-to-work” programs, have created new demand for housing convenient to jobs and transportation. Indeed, minority home ownership rates have climbed dramatically in the past ten years. At the same time, the costs of housing and transportation have risen more rapidly than gains in income, leaving many working families vulnerable.

The loss of affordable housing contrasts sharply with home ownership rates, which are at historic high levels.¹⁶ At the same time, record numbers of very low-income households are spending more than half their incomes on housing, and nationwide, some 90,000 units have been withdrawn from federally-subsidized housing programs.¹⁷

These trends—rising home ownership, rising housing unaffordability, and the increasing conversion of subsidized housing to market rate—are all responses to the “new economy,” a record economic expansion that, coupled with the Internet, has changed the way businesses do business.

To what extent can cities be relevant in this new economy? How much of a market can there be for housing in urban centers that have mostly lost population over the last twenty years? Many observers have held that the new economy, based in great part on the freedom the Internet has brought to location, will be the end of cities, as more and more workers and businesses are free to locate wherever they choose, relying on the Internet to provide the “location” that cities previously provided, and that freeway networks provide today.

City of Boston—Increasing Affordable Housing

Boston Mayor Thomas M. Menino and members of his Housing Strategy Advisory Group recently released *Leading The Way: A Housing Strategy For Boston*. The report is a three-year plan that addresses the city's housing crisis and builds on the progress the City of Boston has already made in preserving and creating affordable housing. The report examines the city's current housing market, assesses the economic factors driving the rise in local housing prices and outlines steps the city will take to combat the local housing crisis.

Last spring Mayor Menino convened a group of housing experts to form the Housing Strategy Advisory Group and help develop a comprehensive plan for the city to preserve existing housing stock, increase production and provide access for low-income and homeless people and families.

Key elements in Boston's housing strategy are producing 7,500 new units of housing, both affordable and market rate; using city funds to bring 1,100 vacant public housing units back on line; and preserving an existing stock of 10,000 affordable units. Overall, the city expects to leverage \$15.5 million of city-owned land and an additional \$30 million in city resources to attract more than \$2 billion in private and public financing over the next three years.

Leading the Way proposes a number of initiatives and policy prescriptions to guide Boston's housing policy, linked in a unified campaign to increase and preserve housing stock. Under the mayor's new housing strategy, two of the city's most vulnerable groups – the homeless and elderly – will be protected and given special priority.

In his 1999 State of the City Address, Mayor Menino made housing a top priority, committing to doubling the number of new housing units by the year 2000. He surpassed his goal, increasing housing production by 135% over the previous year with more than 2,000 new units. Mayor Menino kept 1,400 units of at-risk rental housing affordable. He increased the number of dormitories in the city to take pressure off the rental market. He also streamlined the city's approval process and identified new housing resources that will enable the city to keep moving forward in this important area.

In fact, the Internet is not only making it possible for smaller, non-urban regions to host economic activity—it is directly generating a surge in demand for living in culturally stimulating and dense places. The hotbeds of Internet content development have not been rural villages or even suburban office parks, but some of our nation's most urban neighborhoods. Data from the 1980s and 1990s shows that land values and income have been rising steeply in areas close to city centers,¹⁸ and the recent experience of cities such as San Francisco and New York shows that the demand for living and working space in highly urban environments is greater than the market's ability to respond.

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If more people are going to be working at home—and all available evidence suggests that this trend will continue into the future—then they will value environments in which they easily can be in contact with other people, have access to support services, and especially have access to colleagues and other people in their fields. It is this fact of the new economy, more than any other, that describes the kinds of urban environments that will most attract investment and development.

The remaking of America's cities isn't just good for the cities themselves; strong cities are increasingly recognized as central for the continued vitality and economic success of the metro areas they anchor.

Pioneering metro areas have recognized the importance of strong central cities to the health of their respective regions. Too often, though, the costs and benefits of metro-area investment have been skewed in ways that systematically hurt central cities. While there is no denying the attractiveness of suburban living for many households, there is equally no denying the role that federal and state policies have had in the past fifty years in biasing development to the urban periphery. Across the country, central cities were locked into vicious circles, as national policies shifted investment to the suburbs, leaving cities with eroding tax bases, declining populations, and increasing concentrations of those too poor or dependent to take advantage of suburban development.

Some regions have begun to address the problems of the imbalance between city and suburb by developing programs of revenue sharing, joint planning, and joint service agreements. Revenue sharing—in which both central cities and suburbs contribute tax revenues to a central fund, which is distributed based on regional need—is based on a simple concept: the costs and benefits of any particular development are rarely confined to a single jurisdiction, but are spread throughout a region. A large retail complex may generate tax revenues for the fortunate municipality in which it is located, but the traffic impacts might easily be felt in neighboring towns. Likewise, a municipal sports complex benefits a whole region, though it might only be the central city or one particular suburb that underwrites most of the public costs involved in that or other cultural amenities. Under one revenue sharing plan—that adopted by Minneapolis/St. Paul region in 1971—40% of the increase in commercial and industrial property-tax revenues goes into a central pool for distribution throughout the region. Lest one think that such revenue-sharing schemes benefit only the central cities at the expense of the suburbs, Minneapolis has actually been a net contributor to this fund for the past five years.¹⁹ Joint service agreements, in which the costs or benefits of a public service are shared across jurisdictional lines, are another tool for enabling metro areas to transcend problems of regional imbalance.

Stronger central cities can also contribute to regional mobility. Concern about traffic congestion has been growing all across the country as metro regions have sprawled. Road construction is no longer seen as a panacea for solving such congestion; recent studies, such as that undertaken by the Texas Transportation Institute, have found that new roads often “induce” new travel demand, reducing most of their value as congestion relief measures²⁰.

The greatest single factor affecting the number of automotive trips is land use density. Studies over half a century have consistently found that even moderate residential or employment densities reduce automotive trip making significantly.²¹ When moderate densities are combined with a range of other actions—the provision of effective, time-competitive transit links, the mixing of uses, including retail, in both residential and employment neighborhoods, and “fair” pricing of parking—urban areas can sustain larger populations with significantly lower per-capita travel impacts on roadways. Indeed, the shifting of even a portion of residential and employment development

back toward the central city, where transit and walking can serve far more trip needs, is one of the most effective means regions have of better managing their traffic flows region-wide.

To be sure, the problem with congestion is not the fault of road construction per se; it represents more the failure to link infrastructure development with land-use planning. Charlotte, North Carolina, cited earlier in this paper, is developing a ring road to improve automotive travel in its region. Unlike other cities, though, Charlotte is developing, along with the roadway, a coherent land use plan that will restrict the kind of development that can take place at roadway interchanges. In this manner, Charlotte will ensure that the roadway remains a contributor to regional circulation, not a means of inducing new development that could overwhelm all too swiftly the new capacity the roadway represents.

Other cities are recognizing the importance of recycling scarce resources in order to expand transportation alternatives for their regions. Recently the City of Boise, took title to over 18 miles of track from the Union Pacific Railroad, who had planned to abandon the tracks. In Boise's larger plan acquisition of the rail line, which runs from the eastern city limits and connects with the Union Pacific main line southeast of the city, will anchor a future commuter rail line. It will also support the reinstatement of suspended Amtrak service to Boise—thus linking the central city of the regions to communities who can benefit from its burgeoning high-tech presence.

Stronger cities can also mean the preservation of open space and farmland. The American Farmland Trust estimates that 79% of the fruit and 69% of the vegetables produced in the U.S. come from high-quality farmlands under threat of urban sprawl.²² This is the nation's most productive farmland, the loss of which would dramatically impact the quality and price of our food supply. To the extent that more development can be channeled back into the urban core, more farmland can be protected.

Cities—that is, urban neighborhoods—can also help regions dealing with aging populations. The dramatic growth in the number of older seniors, many of whom would prefer to transition out of driving, will require new forms of appropriate housing close to services and served by effective transit—in short, urban settings. While many seniors will choose to remain in their existing homes or neighborhoods, others will want the convenience of living in neighborhoods with better access to social services, recreation, and transportation. There's also the question of infrastructure; it is far more cost-effective for regions to provide transit services in core urban areas than to attempt to serve far-flung suburban development, especially when much of that development has followed settlement patterns that make transit service extremely difficult to provide and make walking safely a near impossibility.

Perhaps the most surprising development in recent years is the extent to which residents of suburban zones increasingly recognize the regional benefits of stronger central cities. A majority of people surveyed recently support various financial incentives for central city development because it controls sprawl and helps stop the erosion of regional quality of life.²³

The American city thus finds itself at a unique juncture. After decades of decline, many cities have begun to rebound just as the requirements of the new economy and changing demographics will create ever greater demand for in-town living. The benefits to suburban and rural areas of stronger cities is also a factor favoring a new urban renaissance. What, then, are the barriers and challenges that will need to be addressed if cities are to play a more central role in our nation's future?

City of Atlanta—Promoting Home Ownership

The Select Atlanta Homeownership Alliance aims at dramatically increasing home ownership opportunities while positively impacting transportation, the environment, economic development, and job creation. By enticing families to “select” living within the City of Atlanta, the Alliance hopes to reduce “sprawl” and the legendary traffic congestion it creates. The Alliance is a partnership of the City of Atlanta, the Bank of America, Freddie Mac, the Atlanta Center for Homeownership, Consumer Credit Counseling Services, the Atlanta Empowerment Zone Corporation, the Atlanta Housing Authority, Atlanta employers, and numerous local not-for-profit organizations.

The Select Atlanta Alliance is working to infuse over \$1 billion in new mortgage capital into the City of Atlanta with the goal of creating over 10,000 new homeowners and adding over 450 units of new construction in targeted neighborhoods by the year 2005. The Atlanta Center for Homeownership, which coordinates the Alliance, is providing comprehensive “one stop” home buying assistance to simplify the process for new homeowners and help more households become eligible for mortgages.

The Alliance is using a number of innovative approaches to ensure that this investment is targeted in “smart” ways. The Employer Assisted Mortgage Program encourages Atlanta businesses to promote homeownership near employment sites, encouraging workforce development, neighborhood revitalization, and reducing traffic congestion. A similar program allows teachers to purchase homes in selected neighborhoods for as little as \$500 down. Of the new units that are planned, many will be built adjacent to or near public transit stations; these are anticipated to become the catalyst for other developments within targeted neighborhoods.

THE CHALLENGES TO BE FACED

America's nascent new urban renaissance can contribute mightily to the challenges facing metro areas across the United States: preservation of open space and farmland, provision of affordable housing, use of existing infrastructure, reduction of demand on roads and freeways. But there are considerable challenges that must be met if America's cities can fully grow into their new potential.

Suburban sprawl generates a need for all kinds of new infrastructure, from water and sewage systems to new schools. Urban areas, on the other hand, have much of this infrastructure in place. It is surprising, therefore, that development in urban areas often costs significantly more than development in greenfield sites. These high costs can be traced to patchwork regulations and policies at all levels. For example, environmental requirements for brownfield clean-up, however well-intentioned, have also made the cost of such clean-up—or the risks associated with it—prohibitive in many cases. The result has been a rude paradox: rather than cleaning up the nation's urban lands, brownfield policies have often kept these lands in their contaminated state. At the same time, the potential benefit of brownfield sites to cities are substantial; a recent survey of one group of American cities identified potential tax revenues of between \$878 million and \$2.4 billion and the potential of more than half a million new jobs should these sites be redeveloped.²⁴

Brownfield policies will need to address two key questions if this challenge is to be resolved. First, the costs and risks associated with brownfield development cannot be placed entirely on the entity seeking to develop those lands. Second, the scale and kind of intervention required to clean brownfield sites should be better matched to the kinds of land uses proposed for such sites, so as to ensure maximum safety for people and the environment without imposing unnecessary costs and restrictions on developers.

Developers, community associations, even nonprofit agencies that have attempted to develop exciting, livable urban projects have also run up against issues with zoning in many cities. The first zoning codes were designed to protect cities from abuses to the urban fabric by requiring setbacks to permit light and air to penetrate street “canyons.” To these restrictions were added others aimed at separating incompatible land uses, such as industrial lands and residential neighborhoods. In today’s new economy, though, with its prevalence of such “clean” industries as web content design, many of the kinds of uses that were previously separated are now more desirable if they are integrated (such as telecommuting centers within residential neighborhoods). All too often, zoning codes prohibit the kinds of development and mix of uses, such as urban row homes within walking distance of a well-served transit station and small shops, that would allow cities to provide housing affordable to working households, or the kinds of mixed-use developments that can provide residents or employees of a zone with walking access to shops and recreation opportunities.

The promise of more cooperative regional efforts may hold the key to an improvement of overall urban health. On the one hand, many cities have seen their tax bases erode as development has shifted to outer suburbs, at the same time that central cities and inner suburbs have had to provide the lion’s share of social services to economically dependent populations. On the other hand, studies by noted economist Myron Orfield have frequently demonstrated that the potential loss of revenues to better-off suburban areas is often less than feared, and the overall improvements to the health of metro areas generate significant long-term benefits throughout a region. Effective, more cooperative programs among jurisdictions within a metro region, such as revenue sharing, joint planning and joint service agreements, can allow for more efficient delivery of services and more effective maintenance of infrastructure in central cities, thereby maximizing the value of the investment in these systems and ensuring the regional benefit they promise.

Beyond issues of revenue sharing and regulations affecting the costs and risks of urban development, national and state policies will also need to be brought into line. Federal and state environmental programs, however noble in purpose, frequently have the perverse outcome of working at cross purposes to the kinds of development that most can mitigate air and water pollution. Air quality policies, for example, that penalize development in core areas for “non-attainment” end up pushing new development to fringe areas, only furthering reliance on longer and longer automobile commutes.

The challenges of urban development are not just at the level of governmental policy. A commonly recognized limitation on investment in infill development is the structure of secondary debt markets, which tend to favor single family projects on greenfield sites and treat mixed-use, mixed-income projects as non-standard products, which are harder and more expensive to finance. A similar problem occurs when developers attempt to renovate or expand on existing urban developments which are non-conforming or which have been “grandfathered” into the present.

America's banking industry will need to work closely with government and the research community to better define a set of standards for urban infill development that addresses the issue of risk and hence lowers the bar for financing new urban projects.

Municipalities will also need to work with developers who need to assemble sufficient tracts to justify an investment in urban projects. Too often, developers are waylaid by the difficulty involved in assembling such land in urban settings, where multiple owners and occasional title problems bedevil efforts to develop and market new projects. In contrast, greenfield development usually involves single tracts, making acquisition much easier for the developer.

Not all challenges to be faced in redeveloping America's cities are technical or at the policy level; some are institutional. In many cases, cities have evolved administrative bodies, institutions, labor agreements, or policies that have become anachronistic.

Institutional reform is among the most difficult, yet necessary, challenges facing many cities. In some cases, the issue is one of consolidating various city agencies or departments into new units, focused more strongly on providing timely and responsive service to those seeking to invest in urban development. In other cases, the issue is one of renewing institutions, such as schools, and helping these institutions more successfully meet the demands placed upon them.

How important is regulatory reform? It is central to the development of more responsive and flexible municipal institutions. More and more, visionary mayors, city councilors, and managers have been developing and executing innovative programs to bring urban institutions to the forefront of organizational effectiveness. The key criterion being used to revamp agencies is responsiveness; the more governmental bodies can respond rapidly, consistently, and constructively, the easier it will be for individuals and organizations to focus investment back on the city.

Overall, the evidence suggests that America indeed is on the cusp of a new urban renaissance. The Council for Investment in the New American City will be working with governmental agencies, the private sector, and community organizations to identify and implement programs to further channel investment in America's cities so that this renaissance can continue to grow in its ability to transform regional quality of life.

Strong cities make for even stronger regions. Effective partnerships, bridging the traditional city/suburb divide, can ensure that America's future will be one of opportunity and a high quality of life.

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