

**In what ways and to what extend does conservatism hinders the financing of
progressive development?**

For the past fifty years, because of vast postwar building project, expansive interstate highway programs and widespread adoption of single-use zoning policy, the United States has witnessed the emergence of sprawling suburban environments in which the residential subdivision has replaced the concept of mixed-use neighborhoods. Commercial strips, shopping malls and highways network have come to dominate the American suburban landscape while hazardly consuming huge amounts of land. In general and in the most urbanized states, the actual demographic trends seems to witness a come back into cities for empty nesters attracted by a more convenient life style as an alternative to life in congested suburbs. Developers argue that transit oriented development near subway or light rail is becoming a must and new mixed-use town centers in the suburbs are becoming one of the hottest development trends (Urban Land Institute, 2006). However, these types of development are not that easy to create and they won't work just anywhere. Today, many cities are trying to institute programs promoting infill development as a strategy of Smart Growth. While mixed-use neighborhood should be promoted, it usually encounters issues that hinder the success of such development. Among others, the financing of such projects is considered as a real challenge faced by developers. This paper will argue that conservatism non only support sprawl but also hinders the financing of progressive development. The evaluation of the investment risk factor will be presented as one of the main factor supporting conservatism.

In general, investment in mixed-use development projects are viewed as risky by investors as they do not fit within traditional types of conventional development where market is

known and risk minimized. Investors' requirements are still favoring conventional development placing mixed-use development at a competitive disadvantage (Gyourko and Rybczynski, 2000). The issues to finance progressive development can therefore be considered as a factor that favored sprawl. Why would a developer consider investing in adaptive projects while it is easier and less risky to make profit on greenfield sites adjacent to urban fringe?

First, nowadays, while the planning community seems to advocate and support infill and mixed-use developments as a key to limit sprawl, developers have to face a different approach to financing such projects. Financing conventional development has already been established and accepted by the investors. Also it has been codified in 19 standard products types (Leinberger and Kozloff, 2003). These 19 types are unfortunately noticeable in the American landscape from coast to coast as they are mostly unattractive and tend to consume a fair amount of land. They include, among others, regional malls, neighborhood centers, office parks and low density housing developments. Surprisingly, part of the 19 categories, the mixed-use development category only includes offices, retails and restaurants. It does not include any housing component to it. Therefore, conservatism hinders the financing of "progressive projects" not labeled in the 19 categories. In addition, in financial markets, investors are required to trade similar products and bankers have been trained to think of standardization as a means to minimize risk and maximize trading volume (ULI, 2005). For obvious reasons, standardization conflicts with diversity and character. New trends in development favored sense of place and identity, designers, planners and architects tend to design mixed-use projects that reflect these criteria. A recent consumer and market research has shown that between 30% and 50% of consumers want to live in mixed-use, walkable places that are generally not possible by the development of the existing 19 standard product types (Liebenberg, 2005). Unfortunately, at the end of it, if the

developers cannot obtain the investment capital, such projects cannot be built. In 2000, a study has been conducted by the center of Zell/Lurie Real Estate at the Wharton school of the University of Pennsylvania (Gyourko and Rybczynski, 2000) to demonstrate the obstacles and solutions to finance New Urbanism projects that can be considered as progressive projects. The findings of the study revealed how unknown territory in financing such new developments can hinder their future existence. The results showed an agreement that New Urbanism projects are more costly than single purpose projects for the following reasons: 1) innovative projects is usually more expensive than conventional development; 2) building at a higher density cost more; 3) the novelty of multi-uses can conflict with well known engineering practices in place and therefore increase the cost of study and implementation; 4) investors and lenders perceive the complexity of New Urbanism projects as a factor increasing risk in their investment as well as the prediction of the real demand for projects with a multiple property types. Therefore, we might argue that conservatism in the financing sector can hinder progress.

Second, real estate value has always been determined by location (Hudnut, 2002). Due to the pressure to make profit in short term, developers are forced to look for sites with low constraints and easy to develop. Most of these sites are located at the fringe of metropolitan areas. Over the past 20 years, for every 1 percent increase in population, most metropolitan areas have seen a 5 to 12 percent increase in land consumption (Leinberger, 2003). The cold reality in real estate development implies that only projects that can be sold quickly can be built. Sites that attract investors are generally the ones where single buildings can be built and while favorable land use accelerate the permitting process and minimize municipal constraints. Most likely, these developments (i.e. commercial strips) with their modular billboards are built to catch the attention of passing vehicles rather than attracting them with a striking architecture. Car-

dominated, modular, conventional real estate development will always produce sprawl and placelessness (Leinberger and Kozloff, 2003). However, these developments are lucrative and produce good short-term cash flow crucial for the developers in need of cash to face most of the financial performance guaranties requested by towns. For developers, it is inconceivable to invest in long term in an area that is almost certainly going to be torpedo by a new market demand driven by sprawl. As a result, attractive lands are always moving outward from the corps of metropolitan areas. Edges cities will always be an ephemeral place to invest. Unless new financing strategies are offered to developer to finance projects that seemed to meet the new needs of the population, the edge of our cities will continually be redefined and lead by easy conventional investments.

If risk is usually less existent in conventional development, it is perceived as higher in urban condition when urban lands are considered for future infill development. However, while in new urbanism projects located in greenfields density is synonym of nuisance by investors or lenders, at contrary for New Urbanism projects in urbanized areas, this fear is less pronounced due to the fact that urbanites are more willing to accept higher density and multi uses in their neighborhoods (Gyourko and Rybczynski, 2000). In general urban infills are considered risky due to the fact that they are in some ways unique and there is enough development history based on which those risk can be evaluated. Assessing the nature and level of demand in locations that have not been tested yet can be difficult. This unknown represents a potential risk that an investor might not be ready to take. Mainstream sources of capital rely on predictability and standard practices to maintain profitability (Tarnay, 2004). In the case of urban infill projects targeting mixed-use development, the risk can be alleviated by targeting more than on segment of the market. However this approach can complicate project financing. Others factors than

unknown precedents in infill developments contribute to increase the risk in investing in such properties. Some others such as land acquisition, site contamination, existing infrastructure conditions, inappropriate zoning regulations or neighborhoods oppositions increase the risk and create some real constraints that the developers has to go through. A fair amount of infill developers find that obtaining private sector financing can be a real challenge. Lenders are reluctant to invest in unique types of projects for which developers cannot demonstrate a proven record of acceptable risk (Suchman, 2002). While it seems that developing urban infill can be a real burden for the developer, financial and non financial strategies have been proposed to help making these projects developable. One more than others stand out in the land development literature: the partnership between the public and private sectors. There is a fair amount of designated federal funding, Community Development Blocks Grants, Brownfield funding that can be used to lesser the financial investment from the private developer.

In conclusion, the paper discussed that in the sprawling American landscape conventional developments are still a safe and a measured way for the developers to have a quick return in their investment. Conventional developments are less risky, better understood and accepted by lending institutions. At contrary, while the planning community recognize mixed-use neighborhoods are one of the solutions against sprawl, it is still difficult for progressive developments to be built. One of the reasons presented in this paper relies on the evaluation of risk by financing institution as the factor that limits such developments in suburban and in urban areas. Therefore we can conclude that conservatism hinders the financing of progressive development.

Sources

Gyourko, Joseph E. and Rybczynski, Witold. "Financing New Urbanism Projects: Obstacles and Solutions". *Housing Policy Debate*. Vol.11., Issue 3,(2000), pp. 733-750

Hudnut, William. "Mayors' Forum: Mixing Uses". *Urban Land*, June 2002

Leinberger, Christopher B. "Building for the Long Term." *Urban Land*. November/December 2003.

Leinberger, Christopher B. and Kozloff Howard."Financing Mixed-Use. *Urban Land*. Fall 2003.

Leinberger, Christopher B. "The need for alternatives to the 19 standard Real Estate Product Types. " (Draft) Arcadia Land Company. June 2005.

< <http://www.cleinberger.com/AdminHome.asp?ArticleID=205>>

Suchman, Diane R. *Developing Successful Infill Housing*. Washington, D.C.: ULI-the Urban Land Institute, 2002.

Tarnay, Stella. *Barriers and solutions to Land Assembly for Infill Development*. Wahsington, D.C.: ULI-the Urban Land Institute. February 2004.

Urban Land Institute. "Challenges to financing mixed-use development". *Urban Land*. February 2005.

ULI—the Urban Land Institute and PricewaterhouseCoopers LLP. *Emerging Trends in Real Estate 2006*. Washington, D.C.: ULI—the Urban Land Institute.