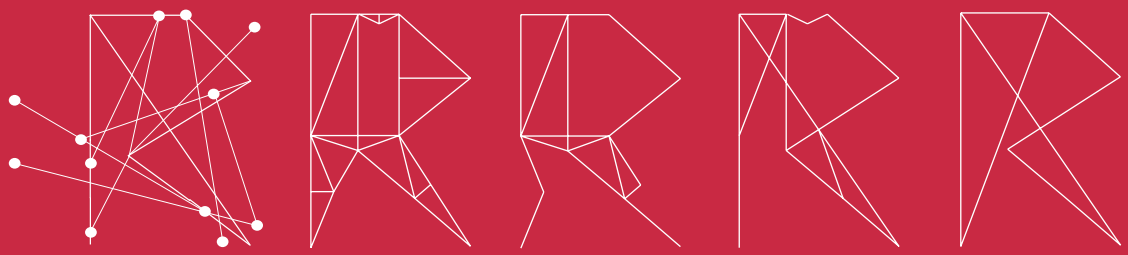

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Foreword

Welcome to the inaugural edition of the Harvard Journal of Real Estate (HJRE). The mission of the HJRE is for students and faculty from across Harvard to share perspectives on topics in real estate. This year we asked for submissions on the following theme selected by our editorial committee: "Navigating Investments with Ethical Risk."

The founding of HJRE was in response to (1) the diversity of approaches to teaching real estate at Harvard and (2) the prevalence of miscommunication in the real estate development process, in part attributable to the many different stakeholders with divergent interests. The ability to communicate across divides is a skill that is difficult to cultivate in isolation from other professional perspectives. There is an increasing recognition of the value of multidisciplinary education here at Harvard, with classes each term being offered that allow future designers, investors, and policymakers to meet as peers, rather than adversaries at the negotiation table. While the Real Estate Academic Initiative, the sponsor of this journal, works to bring together faculty at Harvard, there was not yet a successful mechanism to bring together graduate students to discuss their past work and current interests. Thus, we sought to create a forum for students and faculty from across Harvard to engage on challenging issues in real estate. This was our first goal.

Our second goal was to develop a keener understanding of these differences across disciplines and to create a dialogue among them. This goal led to the unique format of this journal: Each student submission was matched with a faculty reviewer with similar interests but from a different discipline. These reviews are published following each piece. We express our appreciation for our faculty reviewers, who are based in the Kennedy School of Government, the Graduate School of Design, and the Business School. I would also like to highlight our special guest contribution, "Where Americans Live: A Geographic and Social Tally," an exclusive preview of research by the team of Alan M. Berger, Casey L. Brown, Carolyn Kousky, Ken Laberteaux, and Richard Zeckhauser.

Real estate and ethics are not terms typically discussed in tandem. A goal for this particular issue was to begin to craft a shared definition of "ethical risk" for the field of real estate. We deliberately did not initially define "ethical risk," but rather left it open to interpretation during our request for proposals. Across our submissions, what we learned is that students agree that managing ethical risk is about the management of our societal responsibilities to others. Three primary delineations of responsibilities emerged from our submissions: those to future, present, and past peoples. Urban planner Thomas Leighton proposes an economic model for investments to facilitate long-term and sustainable progress out of poverty in disinvested communities. Writers from the Kennedy School of Government tackle the topic of appropriate and immediate response to man-made and natural disasters: Victor Cedeño discusses evaluating government administration of National Stabilization Program funds in Minneapolis in response to the foreclosure crisis, while Ben Jervis identifies the barriers to the provision of short-term housing by the private sector in response to Hurricane Sandy in New York City. Integrating economic development with culture and heritage is a challenge architects Ryn Burns and Vaibhav Jain engage in the case of beautiful Queenstown, New Zealand.

Our special guest contribution offers a bold statement on ethical responsibility in real estate in its consideration of individual choice in residential investment. A familiar dilemma in economics is that an optimal choice for an individual could be the suboptimal choice for society. But does that mean we should restrict the investment choices of individuals? Our guest writers suggest that, if there exists an ethical imperative to affect land use

patterns, then we should seek to define the relative effectiveness of alternatives that mitigate the negative environmental externalities of suburbia before leaping to the promotion of residential density. Future exploration of this topic should also include discussion of individual and collective responsibilities to the political and civic consequences of suburbanization.[1]

I would like to thank each of our writers for their courage to submit their work for public review. These submissions and their accompanying reviews are a glimpse into the very real challenges of communicating across disciplinary divides. Using the analytic framework specific to a discipline does not always hold the same authority to those outside that discipline. It is important to note, however, that those less successful provide the greatest learning for all of us. I would also like to thank our writers for sharing the questions on which they feel most passionate. The work published here has a great variety of origins. Some are modified from ongoing Ph.D. dissertations, master's theses, and papers completed for classes. Some are independent projects proposed in direct response to our theme. I would like to thank our writers once more for their leadership in proposing actual solutions to difficult and persistent problems that have no obvious answers.

In its first iteration, this publication is an experiment in format and in spirit. It reflects the diversity of challenges that motivate people interested in real estate issues to pursue advanced degrees across Harvard. I thank the Student Leadership Team and the Faculty Advisory and Review Boards for their enthusiasm and support. With their vision and commitment, we can all look forward to seeing how HJRE evolves and brings together even greater representation from Harvard and beyond in future editions.

Sincerely,

Cristina Garmendia
Founding Executive Editor | Harvard Journal of Real Estate
Masters of Public Policy '13 | Harvard Kennedy School of Government

(1) Thank you to Assistant Professor Quinton Mayne for this observation.

Externalities or Extortion? Privatizing Social Policy through Community Benefits Agreements

Michael Hankinson

Author Biography:

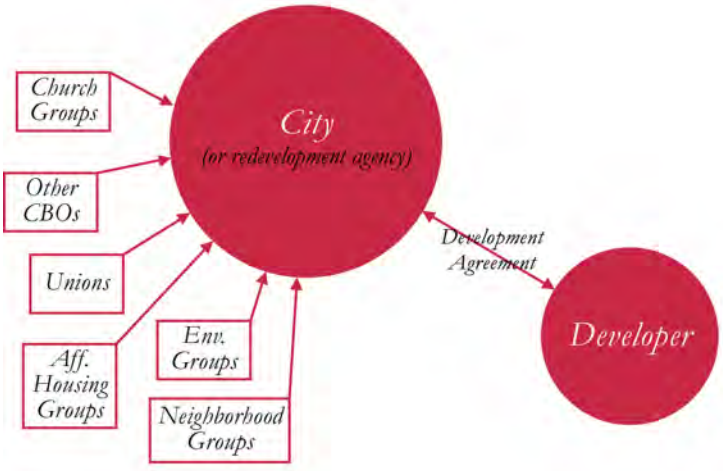
Michael Hankinson is a third-year Ph.D. candidate in Government and Social Policy (Graduate School of Arts and Sciences/Harvard Kennedy School) at Harvard University. His research focuses on the politics of urban redevelopment, ranging from gentrification to public-private partnerships. More broadly, his interests extend to the effect of politics on the built environment. Prior to Harvard, Michael attended the University of Virginia as an Echols Scholar, graduating with a B.A. in Government and Environment Thought & Practice.

Ethical Risks

A building is merely the physical byproduct of a lengthy development process. From design to approval to construction, the development process provides countless junctures of ethical risk, particularly in mitigating a project's negative externalities. These externalities, ranging from congestion to gentrification, have been a constant source of friction between developers and neighboring residents. Indeed, the management of such externalities has required government intervention in the form of zoning and permit approval. Like any political process, permit approval consists of negotiating, bargaining, and promise making, actions inherently based on an ethics of trust and transparency. Recently, bargaining innovations have sought to lessen the role of government as a mediator between developers and community groups, potentially increasing the risk of violations of trust and transparency. In this article, I analyze these bargaining innovations to understand how investors, community advocates, and concerned citizens can better navigate the ethical risks of the development process.

Nearly every major urban development project requires the interaction of three players: a developer spearheading the project, a community of neighboring residents, and a cadre of elected officials responsible for project approval. In the traditional model, the developer and elected officials negotiate the project proposal and development agreement. While local residents are free to voice concerns, their participation is targeted toward their elected officials via public hearings and appeals. In other words, the community's ability to engage with the developer must be channeled through government conduits.

Recently, this traditional model of community voice via politicians has been subverted by a new pathway of development bargaining. Labeled "Community Benefits Agreements", CBAs are private contracts negotiated between a project's developer and the surrounding community groups. To counter a new project's potential externalities, the developer will promise either financial, physical, or behavioral goods, ranging for the provision of affordable housing units to the guarantee of a living wage for employees. In exchange, community groups will pledge to publically support



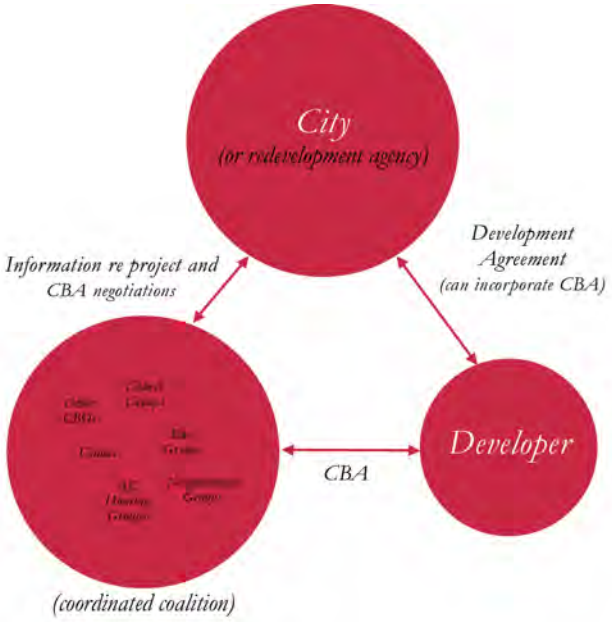


Fig. 1 Without CBA (left), Fig. 2 With CBA (right)

the development, typically through favorable testimony at public hearings. As a result, a well-negotiated CBA can provide a community with valuable resources while helping developers build political momentum behind their projects.

Indeed, the presence of a CBA stems from a community's leverage of power, both political and legal. Politically, organized community protest against a proposed development can weigh heavily on elected officials, specifically when large public subsidies are being extended to the developer. Thus, developers seeking financial support from the city have an incentive to minimize political opposition through community negotiations. Legally, a community's power comes from the ability to delay projects via legal action. Thanks to mandated environmental impact statements and reviews, large scale developments are vulnerable to questions of their effects on air quality, energy use, and public health. Because development delays have high financial costs, even unsuccessful lawsuits can squander a project's financial viability. Consequently, a community's threat of legal action can provide the necessary leverage for a developer to negotiate a CBA.

Describing the Problem

Still nascent, CBAs lack a formal legal definition. There are no specifications on the number of groups necessary to comprise a valid community voice. Nor are there predetermined benefits levels deemed just compensation for a community's political support. In short, a CBA may be signed with various levels of inclusivity and accountability. For instance, an agreement negotiated solely by elected officials may claim to represent the will of the entire community. Julian Gross, who has represented community coalitions in over a dozen CBAs, frames how such an agreement may be misleading:

"[L]ocal government officials and developers sometimes use the term CBA to describe any set of community benefits commitments on which they agree. A charitable view is that this is a convenient term for commitments of interest to the community; a less charitable view is that project proponents hope to fill the political space a community-driven CBA campaign would occupy, thus easing project approval and marginalizing opposition" (Gross 2008).

From his experience drafting community benefits

agreements across the United States, Gross outlines his requirements for an ethically legitimate CBA. First, a CBA applies to a single development project. The agreement must be legally enforceable, not aspirational or voluntary. Finally, the agreement must address a range of community issues and be the product of substantial community involvement (Gross 2008). Together, these measures of inclusivity and accountability form Gross's standards for ethically legitimate CBAs.

Yet, despite these standards of success, the nebulous definition of a CBA has led to a wide spectrum of outcomes. Since 2001, 30 agreements have been negotiated. In this period, two cities stand out as hosting a combined 40 percent of all agreements: Los Angeles (eight) and New York City (four). Yet, though these cities share a disposition towards benefits agreements, the character of their CBAs is completely contrary. While Los Angeles has thrived both as the birthplace and paragon of inclusive and accountable CBAs, New York's agreements have been riddled with controversy (The Public Law Center 2011, Salkin 2007, Gross 2008, Ahern et al. 2010, Been et al. 2010). Not only have the New York agreements been challenged for failing to represent the will of the affected community, but the enforcement and delivery of their promised benefits has been plagued by protest and delay (Robbins 2012). As noted by New York Comptroller John Liu: "[S]tudies have singled out New York City's community benefits agreements as examples of what not to do. It is time for this embarrassment to end" (New York City Comptroller 2010).

A premier example of New York's woes is the Atlantic Yards project in Brooklyn. In June 2005, a CBA of eight community groups was used to win approval of $200 million in public subsides for a $2.5 billion mixed-use development (Oder 2011, Develop Don't Destroy Brooklyn 2012). However, not only had three of the eight signees received over $5 million in financing from the developer prior to beginning CBA negotiations, but two signees had also been formed as pro-development groups in response to the project proposal (Robbins 2012, Develop Don't Destroy Brooklyn 2012). Indeed, the coalition was not representative of the community, but rather handpicked by the developer, raising a conflict of interest in negotiations. Furthermore, while only eight organizations signed the CBA, a coalition of more than 50 community organizations has formed in vehement opposition to the development (Been et al. 2010). Regarding accountability, the CBA lacks specific reporting requirements outside of its workforce provisions (Ahern et al. 2010). Likewise, an independent compliance monitor was to assess the developer's performance in meeting its promised benefits. As of September 2012, over seven years after signing the CBA, a monitor had not been hired (Robbins 2012).

Testing Gross

To assess the ethical risks of CBA negotiation, I conducted the first analysis of the entire population of 30 CBAs. Testing Gross's theory of ethical legitimacy, I sought to identify variables contributing to inclusive and accountable benefits agreements. To begin, I first coded CBA success based on standards of both inclusivity and accountability (Gross 2008). Using control variables of institutional structure, I then tested the hypotheses that these standards are more likely to be met when there exists 1) a pre-established economic justice organization leading the community coalition, 2) the participation of labor unions in the community coalition, and 3) the joint efforts of construction unions and service unions in support of the CBA. I surmised that in the absence of these conditions elected officials and developers are likely to bypass open community representation. Consequently, CBAs formed without these conditions would be of low inclusivity and low accountability, such as that of Atlantic Yards.

The results were illuminating. While the presence and cooperation of labor unions stood as strong predictors of CBA success, the dominant predictive variable was the leadership of an economic justice organization. Indeed, 19 out of the 20 successful CBAs included community coalitions led by such organizations. More so, I traced their structure to affiliation under the Partnership for Working Families (PWF), a national network of 16 regional economic and environmental justice organizations (The Partnership for Working Families 2012, Working Partnerships USA 2008). While there were two successful cases not utilizing PWF support, the inclusivity and accountability of every PWF-supported CBA suggests the benefits of the national network in sharing strategies for the negotiation of successful benefits agreements.

Nevertheless, the analysis should be taken with caution.

While I did my best to code inclusivity, there will always be groups that will protest exclusion. Though a large coalition may seem to display community consensus, there is no way to guarantee the representativeness of self-selecting organizations. Even if full representation were possible, inclusivity does not solve the ethics of non-governmental development agreements. For instance, the developer-promised community benefits represent a privatization of previously government-provided social policy. Applied ad hoc, CBAs may lead to costly neighborhood-by-neighborhood solutions to problems requiring coordinated efforts at the city level (Been et al. 2010). Taken to the extreme, benefits agreements resemble a form of "greenmailing", wherein citizens groups threaten developers with environmental lawsuits only to drop the lawsuit when provided with unrestricted payments (Brasuell 2013, Fulton 2013). In other words, lacking a government mediator, CBAs unleash a new array of ethical dilemmas.

Solving the Problem

This examination of CBAs has raised two questions. First, until today, what variables have contributed to ethical benefits agreements? Second, going forward, what are the ethical risks of these agreements as a new form of social policy? As CBAs continue to evolve, each player in the development process needs to approach their role with an awareness of these inherent risks.

First, the investor valuing fair, good-faith community relations must understand that all CBAs are not created equal. While some CBAs do mobilize extensive community coalitions, others can be forged with handpicked, unrepresentative organizations harboring financial conflicts of interest. In due diligence, the ethical investor needs to look beyond the developer's press release and examine the politics of the actual agreement. The equation of any benefit agreement with the community will is a far too naïve assumption.

Second, elected officials and community advocates seeking a fair bargain for their neighborhoods must recognize the pitfalls of non-inclusive, unaccountable benefits agreements. The findings from the population analysis suggest that leadership from an economic justice organization, specifically one affiliated with the Partnership for Working Families, has been a sufficient condition for success. To minimize the ethical risks of the bargaining process, community advocates should seek the resources and experience of these organizations in forging their own benefits agreements.

Third, concerned citizens must understand the impact of these non-governmental bargains on urban development. As noted above, the benefits of community voice may be outweighed by the agreements' collective costs. While originally a supporter of CBAs, New York City Mayor Michael Bloomberg protested against the agreements, equating community demands for benefits as a form of "ransom" (Braziller 2006). Similarly, the Association of the New York City Bar issued a task force report recommending that the City give no "credit" in the land use approval process to developers for benefits provided through CBAs (Been et al. 2010). In short, these side bargains are likely to increase the costs of urban development, potentially stifling projects of public good operating on slim margins. Citizens must be aware that with their demands for benefits comes a NIMBY-esque tax on development citywide.

Consequently, perhaps the best solution to unethical bargaining in CBAs is not found in enhancing the inclusivity and accountability of the agreements themselves, but in identifying their impetus. Multiple reports attribute the advent of CBAs to citizen discontent with the formal development approval process (Ahern et al. 2010, Been et al. 2010). Thus, to regain its role as the negotiation mediator, city governments must seek methods of empowering community voice in the permit approval process. So long as citizens feel left out of the conversation, they will continue to seek side-bargains with developers, exposing investors, advocates, and fellow citizens to further ethical risk in a development process already fraught with moral dilemma.

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Faculty Review

Quinton Mayne

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Community Benefits Agreements are problematic for Hankinson in large part because they constitute a form of privatized governance that runs the risk of failing three important ethical tests: an inclusion test, an accountability test, and a common goods test. These ethical risks are not however insurmountable. Hankinson's own research suggests they are mitigated when organized advocates of economic justice play a leading role in the crafting of CBAs. Citing work by Gross, Hankinson also identifies the imposition and effective policing of preemptive formal requirements as a potential way to guard against participatory exclusion, developers' breaking their promises, and neighborhood NIMBYism.

Given their ethical risks, Hankinson seems to suggest that city governments should avoid CBAs, concluding that elected politicians should "seek methods of empowering community voice" that allow them to regain their role as "negotiation mediators." This idea that, compared to CBAs, city governments serving as "negotiation mediators" will make development processes more inclusive, accountable, and oriented toward the common good seems questionable, at least in the United States. Take the example of New York City referred to by Hankinson. Electoral participation in city-level elections is extremely low: barely 28 percent of registered voters cast their vote in the mayoral election of 2009. Even if turnout

were higher, it would still be difficult for the voices of political minorities and those with few organizational resources to be heard and have influence in important planning decisions given the combination of the centralization of political powers in the office of the mayor, the city's first-past-the-post electoral system, and the very low level of party competition. The reality is that these and similar structural impediments to inclusion, accountability, and orientation toward the common good are found across the United States. Indeed, as Hankinson recognizes, it is this very dysfunctionality of traditional systems of local development with elected governments at their heart that has driven communities to embrace CBAs in the first place.

So, what is to be done? Perhaps the most obvious but also the most difficult solution is to reform the electoral and decision-making structures and institutions of city governments: making council chambers more inclusive of public opinion in all its diversity and replacing a winner-takes-all logic with one of multiparty dialogue and negotiation that respects political minorities. A second and much more common solution is to establish participatory or deliberative democratic institutions that allow communities to influence city hall's development decisions. In practice however this approach encounters many of the same inclusion and accountability problems as CBAs; moreover, introducing local-level participatory opportunities fails to address the arguably larger problem of the likely very weak claims to inclusion and accountability of elected "negotiation mediators" in such a system. CBAs represent a third solution. If CBAs sideline city hall, in a sense they solve the ethical problems posed by the low levels of inclusiveness and accountability of elected politicians. Moreover, enshrining legally-enforceable obligations to inclusion and accountability, even equality, in CBAs, as per Gross's recommendations, seems much more feasible than achieving the equivalent for elections to and decision making within city hall. It seems then that it is the common goods test that CBAs have the most difficulty passing due to the fact that they fragment the planning process and in so doing exacerbate coordination problems. Though elected "negotiation mediators" that sit in city hall are certainly better placed than those involved in CBAs to see the "big picture" for the city as a whole and achieve coordination to that end across the city, we must ask ourselves whether the big picture they see is in fact a just one, grounded in the common good. Given the typical weakness of city politicians' electoral mandate on the one hand and extant mechanisms of accountability on the other, we might well think it is not.

Jay Wickersham

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In recent decades, regulation of major development projects has shifted away from prescribing "as-of-right" land uses and densities under local zoning codes. Instead, most cities now favor discretionary project-specific approvals, often with significant public participation. The use of the Community Benefits Agreement (CBA), executed by the project developer and a coalition of community groups outside of the governmental approvals process, marks a further step in this evolution.

Hankinson's article makes a valuable contribution by evaluating the success of the first generation of 30 CBAs, starting in 2001, according to the criteria of "accountability" and "inclusivity" articulated by Julian Gross, a leading advocate for their use. By these measures, the analysis finds 20 CBAs to be successful. The strongest correlation for success was the presence of a community coalition led by an economic justice organization – preferably, one structured according to the standards of the Partnership of Working Families (PWF). (Because Julian Gross served as legal director for PWF between 2006 and 2010,[1] there may be some circularity in basing the analysis upon his criteria.)

Hankinson also identifies, but does not analyze in depth, broader ethical and political critiques of CBAs. At the project level, there are concerns about transparency and fairness. CBA negotiations may unfairly advantage parties with greater resources and leverage, on either side.

The U.S. Supreme Court addressed the fairness of discretionary project approvals under the "takings" clause of the Fifth Amendment to the Constitution, in the 1987 Nollan case and the 1994 Dolan case.[2] The Court held that there must be a "nexus" between a project's impacts and the benefits it provides; developers should not be forced to fix problems that they didn't cause. Further, there must be a "rough proportionality" between the relative levels of impacts and benefits. If these tests apply to government approvals, they should also apply to CBAs arising out of a regulatory process.

As Hankinson notes, critics have characterized CBAs as "privatizing" the governmental process. Whom do self-appointed community advocates really represent? What assurance do we have that a CBA process, no matter how inclusive, is an improvement on the elections and deliberations of a representative democracy?

Boston's use of an Impact Advisory Group (IAG) for major development projects, initiated in 2000 to address shortcomings in the approvals process, provides an alternative to a CBA. The IAG process avoids privatization by remaining within the framework of formal governmental reviews.[3] An IAG has up to 15 members, drawn from neighborhood residents, local businesses, and community organizations. Two members are nominated by elected officials representing the affected community; the rest are appointed by the mayor, on the recommendations of community members and at-large city councilors. IAGs participate actively in public hearings and comment processes; they also meet directly with project developers. An IAG does not enter into a separate agreement with the developer; instead, it has the opportunity to review and comment on the binding Cooperation Agreement between the developer and the city before it is executed.

(1) See www.juliangross.net/docs/CV/201301/Julian_Gross_CV.pdf
(2) Nollan v. California Coastal Comm'n, 483 U.S. 525; Dolan v. City of Tigard, 512 U.S. 374.
(3) An Order Relative to the Provision of Mitigation by Development Projects in Boston (Oct. 2000); An Order Further Regulating the Provision of Mitigation by Development Projects in Boston (April 2001). See www.bostonredevelopmentauthority.org/econdev/Impact%20Advisory%20Groups.htm

New York's Generous, Ineffective Affordable Housing Policy

Zachary Fox

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Zach Fox is a Journalism Fellow at the Safra Center for Ethics at Harvard University. He earned a B.A. from the University of Southern California. He has reported on residential and commercial real estate since 2007, first at the North County Times in the San Diego metro area and then at SNL Financial in Charlottesville, Virginia and New York City. Fox's current work focuses on public and nontraded REITs. In San Diego, he completed award-winning investigative articles on real estate agents with suspiciously high foreclosure rates. His fellowship year will explore the efficacy of government-funded housing programs and campaign finance, as well as potential solutions should there be any connection. The project will be conducted in partnership with the Center for Public Integrity, an investigative journalism nonprofit based in Washington D.C.

At a time when low-income housing advocates are fighting to prove the value of federal resources in the face of tax reform, the state of New York has been offering debt and equity to ultra-luxury Manhattan apartments in return for a handful of affordable units. The apparent inefficiencies in New York City's affordable housing policy add to a growing literature that the cost of developing affordable housing has started to spiral to unreasonable heights.

Background

Local, state, and national policymakers have an assortment of levers to pull when addressing the nation's affordable housing crisis. The nation's largest program over the last 20 years in terms of creating new affordable units is the Low-Income Housing Tax Credit (LIHTC). There are two types of credit, including a 9 percent credit that provides a majority of the total capital sources. The other, known as the 4 percent credit, provides a smaller portion of the total capital sources and is usually part of a package of subsidies that includes bond financing.

Over the course of my talks with numerous developers and policymakers, it has become clear to me that there is an active push to reduce costs – for projects that use the 9 percent credit. To a degree, it makes sense. The 9 percent credit, being more generous, faces fierce competition whereas developers often refer to the 4 percent credit as a "noncompetitive" program.

As with anything that is good, such as free money from the federal government, there are limits. Each year, state

agencies can allocate up to $2.10 per capita, or $2.43 million, whichever is greater, of 9 percent tax credits. Being tied to bond issuance, 4 percent credits are governed not by a credit limit, but by a bond issuance limit. In 2010, the most recent data available, developers applied for $2.24 billion in 9% credits, but state agencies allocated $917.4 million (National Council of State Housing Agencies 2010). For bond issuance, the problem was flipped. The 2010 bond cap was $31.13 billion, but they used just $8.89 billion (National Council of State Housing Agencies 2010). While the bond figures are much larger, they represent debt, not equity, and as such cost the government less and provide a shallower subsidy to the developer.

With fierce competition and deeper subsidy, it is easy to see why the 9 percent tax credit garners most of the attention. However, policymakers should take an interest in examining all available affordable housing programs, and it would behoove New York to take a long, hard look at its 4 percent program.

While the national figures for bond issuance support the "noncompetitive" theme, the same does not hold true for New York. The state used up all of its bond allocation in 2010, and there is "fierce competition" among developers for a piece of the cap (Fox 2013).

New York's bond cap gets eaten

New York uses its bond cap in a variety of ways, and has a litany of affordable housing programs, but this paper will focus on its 80/20 program.

Under the program, the state offers tax-exempt bond financing, which usually offers the developer an interest rate lower than the market. The bond financing also generates 4 percent tax credits, which provide cash to the developer. One such project received a 4 percent credit allocation of $3.6 million. Allocations are per-year figures and last for ten years, so a $3.6 million credit allocation reduces the tax credit buyer's tax bill (usually corporations, especially banks) by $36 million over a decade. The developer sells those credits at an unknown present-value discount. So, it is difficult to know exactly how much a developer raises from any single allocation, but it is safe to assume a $3.6 million allocation netted the developer at least $25 million in cash for a project with 1,169 units, of which 234 are affordable.

But wait, there's more.

Properties in the 80/20 program also generally receive property tax abatements under the city's 421a policy that can slash tax bills considerably. In a story about condominium units, The New York Times reported that an individual's monthly tax bill under the program was $374, but would jump to $1,629 per month after the 421a exemption expired (Satow 2011). Scaled over hundreds of units, 421a tax exemptions save developers millions of dollars.

Finally, 80/20 properties are also often recipients of zoning exemptions that allow them to increase the project's density.

Of course, the financing applies to the entirety of the building, so it is reasonable to say that taxpayer funds also subsidize ultra-luxury apartments that can run $4,000 per month for a studio.

These projects eat up huge portions of New York State's bond issuance volume cap. In fact, the state often splits bond issuances for 80/20 projects across several years, a move that appears to be intended to lessen the impact of an 80/20 project on any single year's bond volume cap. New York State Homes and Community Renewal, which oversees the state's housing agency, did not return multiple requests for comment.

From 2010 through 2012, the New York Housing Finance Agency issued bond financing for 79 projects.[1] Of those 79 projects, there were 23 80/20 projects. Those projects have received, or are scheduled to receive, bond-financed mortgages totaling $3.66 billion, producing 1,681 low-income units.

The other 56 projects produced five times as many low-income units but received one-fourth the amount of financing. The charts on page 17 show a sample of some projects as well as the totals.

(1) The New York City Housing Development Corporation also has authority to issue bonds, including 80/20 projects, but for simplicity's sake, this paper looks only at HFA-issued bonds.

Some caveats accompany data in the chart below. Though 80/20 projects won far more bond financing, the non-80/20 projects likely received more subsidies. The deeper affordability in non-80/20 projects can require grants and other bestowed funds to reach financial viability. For example, one 4 percent project received $10.2 million in tax-exempt financing but also required "soft" loans totaling $1.9 million that carried zero interest, a $3.3 million grant for the cost of the land from the local municipality, and $5.5 million in loans set at one percent. The soft loans and free land are obviously far scarcer resources than tax-exempt financing, and it should be noted that the ability of affordable housing developers to secure those subsidies is the main hurdle, as opposed to 80/20 projects using an inordinate amount of bond cap. And because 80/20 bond issuances are spread across several years, its total covers a broader temporal period than the non-80/20 total. It is difficult to tell exactly how much 80/20 financing the state HFA does relative to non-80/20 loans. In the agency's annual report (New York State Housing Finance Agency 2012), it appears most of the 80/20 projects are classified as Secured Loan Program and the agency's non-80/20 bonds are classified as Affordable Housing Revenue Bonds or some other housing-related name.[3]

Cumulatively, the HFA has issued $25.93 billion in bonds. Of that, the Secured Loan Program received $11.41 billion, or 44 percent of the total. Affordable Housing Revenue Bonds and various other housing-related programs received $3.97 billion, or 15 percent of the total. The remainder went to non-housing-related programs.

It is clear that New York's penchant for 80/20 projects takes up a substantial portion of the state's bond volume cap and potentially reduces its ability to finance fully affordable projects that benefit a greater number of individuals.

But does anyone care?

The 80/20 program is not exactly hidden, so it is

New York State Housing Finance Agency's 80/20 bond-financed projects

Project name	*Mortgage amount*	*Total units*	*Low-income units*
Silver Towers	$609,000,000	1,169	234
MiMA	$350,000,000	814	163
160 West 62nd Street	$260,000,000	339	68
Avalon Bowery	$93,800,000	206	41
Total (23 projects)	**$3,658,585,000**	**8,341**	**1,681**

New York State Housing Finance Agency's non-80/20 bond-financed projects

Project name	*Mortgage amount*	*Total units*	*Low-income units*
River Park Towers	$157,500,000	1,654	1,485
Mariner Tower	$20,700,000	292	292
Ennis Francis	$38,565,000	220	210
Pinnacle Place	$17,790,000	407	395
Total (56 projects)	**$880,635,000**	**9,064**	**8,632**

(2) The $3.66 billion figure probably does not accurately represent the amount of bond volume cap eaten by 80/20 projects from 2010 through 2012. To conduct the above analysis, the author combed all bond issuances from those three years, which included remarketing issuances and, as already mentioned, partial bond issuances. The data were checked for duplicates, so it is accurate to say 23 projects have received or are scheduled to receive $3.66 billion in bond-financed mortgages. However, it is not accurate to say the state issued $3.66 billion of 80/20 bonds from 2010 to 2012.

(3) Of the 23 projects with 80/20 splits to receive bond financing, 17 were listed as Secured Loan Program loans, with three not being listed in the annual report and the remaining three listed under other programs. Of the 56 non-80/20 projects observed, 55 were Affordable Housing Revenue Bonds and one was in the Secured Loan Program.

curious as to why there appears to be little community opposition to the bond financing and 4 percent tax credits.

Part of the program's acceptance could come from historical perspective, per a 2011 article in The New York Times. Until 2008, the 80/20 program was even more generous to industry, as the affordability requirement could be effectively outsourced to outer boroughs via a certificate system (Santora 2011). Only at the end of the piece is there concern raised over whether the program — which appears to receive nearly triple the amount of bond financing as 100 percent affordable housing and subsidizes ultra-luxury units — represents the best use of taxpayer funds.

There, the Times article touches on the central defense of 80/20: it produces affordable units in highly desirable neighborhoods that would not otherwise see any such units.

"There are a lot of fair housing advocates who push for placing more units in high-opportunity neighborhoods," said Becky Koepnick, director of the Moelis Institute for Affordable Housing Policy at New York University, adding that she was not judging the 80/20 program one way or another. "It's a tension about how you think about the best use of resources, and it's an ongoing debate."

And though it might be cheaper to build units in Brooklyn's Flatbush neighborhood than in Manhattan, the government might shoulder more costs elsewhere.

"You always have the trade-off between more expensive units in denser areas or less costly units in less-dense areas. And then you say, 'What's the real cost? If you're in a less-dense area, you have a farther commute and what strains does that put on the system?'" said Michael Novogradac, a partner at Novogradac & Company.

Further, some 4 percent developers appear to not mind the 80/20 program, even though bond issuance under the program would seemingly make it more difficult for a 4 percent developer to win tax credits.

Eugene Schneur, managing director for Omni New York LLC, said that his business has never applied for 4 percent credits and not received an allocation, supporting the idea that the 4 percent program is still "noncompetitive," and the crowd-out effect from 80/20 projects is minimal. Schneur said that 4 percent projects that fail to win an allocation do so because they require too much additional subsidy. If a 100 percent affordable project uses only bond financing and 4 percent tax credits, as opposed to requiring additional grant money or so-called "soft seconds" from the agencies, it will succeed, Schneur said.

"It's not for me to say whether it would happen or wouldn't happen. [80/20 deals] are very big, but the agencies have always worked that way," Schneur said. "There's always the 80/20 deals that get done, and there's always the 4 percent bond deals that get done. And there's a need for both."

Novogradac confirmed Schneur's take, saying that 4 percent deals do face review from state agencies, but there is not the same level of competition as for 9 percent credits.

"It's a different competition. It's a competition for tax-exempt bonds and not tax credits. … It's a financial feasibility test," Novogradac said.

Ron Moelis, CEO of L&M Development Partners Inc., had a similar take, saying that if the state of New York eliminated the 80/20 program, it would not be able to utilize its entire bond cap. In essence, there simply are not enough 4 percent deals. At the same time, Moelis said certain deals are overly generous, especially when an 80/20 deal receives equity from tax credits in addition to the bond financing.

"I think it's excessive use of credit a lot of times, too. But the 80/20s generate a lot of fees for the agencies, which then go back into subsidizing future low-income deals. So there is benefit to that, too," Moelis said. "The agencies have become very good at making money on floating bonds, and in a lot of cases making a lot of money."

Beyond the sticker shock, the program is particularly difficult to accept when one considers that 421a tax exemption and zoning exemptions might be sufficient incentives to secure 20 percent affordability requirements. A 2003 study from The Brookings Institution highlighted this as a general tendency among

policy makers, reporting that "[r]egulatory policies are often neglected as potential tools for affordable housing policy, because they do not directly subsidize either housing units or households," (Katz et al. 2003).

Another significant problem with the 80/20 approach is a matter of scale. The aforementioned 23 80/20 projects received an average of $2.2 million in bond financing per low-income unit produced. By comparison, the mostly affordable projects received an average of $102,000 in bond financing per affordable unit produced. Now, bond financing is not nearly the same level of subsidy as the free land that non-80/20 projects often receive, such as the example above. However, it is interesting, and important, to note that the size of an 80/20 project means reduced borrowing costs can put the amount of subsidy per low-income unit produced on par with 100 percent affordable projects.[4] In all, the 1,681 low-income units in 80/20 projects will likely provide great enjoyment and a socioeconomic boost to the households to occupy them, but New York City's affordability crisis cuts far deeper.

In this sense, New York's 80/20 program exacerbates – to the extreme – a problem with low-income housing identified in a 2007 report from Harvard University's Joint Center for Housing Studies: "Getting rental housing assistance is like winning the lottery – the losers languish on long waiting lists and the winners hit the jackpot," (Belsky and Drew 2007).

There seems to be little defense for the 80/20 program other than inertia.

Affordable housing might work

For all the skepticism in this report, a tone engendered in large part by the state's silence to multiple requests for comment over the past year, New York City officials have, to their credit, readily acknowledged the severity of the city's affordability problem. They have pursued ambitious programs to tackle the issue, and there are indications that their efforts have been successful. These hopeful signs should encourage state officials to explore new methods of using the bond cap in ways that offer a more cost-effective use of taxpayer funds. The city's request for proposals for affordable micro-units represents one such effort (New York City Department of Housing Preservation & Development 2013), but more could be done.

New York City's late mayor Ed Koch launched a ten-year capital plan that invested $5.1 billion in the city's poorest neighborhoods, starting in 1986. Koch envisioned the plan as one that would not just build apartment units but would "rebuild entire neighborhoods of perhaps 15 to 25 square blocks throughout the City." A 2003 study from NYU's Furman Center showed a consistent correlation between the location of the city's efforts and improving neighborhood home prices.

Further, the city's low-income housing tax credit allocations appear to have made significant contributions to lowering the amount of residents suffering under heavy rent burdens. The first impression from the tax credit data from HUD user is that Queens received a tiny amount, $7.5 million, relative to Manhattan, which received $92.4 million in credits. Brooklyn received $78.9 million of allocation and the Bronx received an allocation of $123.3 million. Relative to Manhattan, Brooklyn and Queens have more residents, a lower median income and significantly higher rates of renters paying more than 50 percent of their income to rent.

The borough to receive far and away the least LIHTC investment – Queens – experienced the greatest increase in rent burden from 2009 to 2011, with its share of renters spending more than 50 percent of their income on rent increasing 7 percent over the three years to 27.7 percent in 2011.

Digging into the data a little deeper offers a similar tale. Breaking down the LIHTC and Census data by census tract, it becomes clear the state agency has a preference to build LIHTC developments in neighborhoods that do

(4) Specifically, the reduced borrowing costs for $400 million in financing comes to about $3 million per year, assuming tax-exempt financing lowers the cost of borrowing by 100 basis points, which is not always the case. On a net-present-value basis, this benefit rivals what 100 percent affordable projects receive based on the benefit per low-income unit, driven by the fact that financing is applied to market-rate units as well; however, it is important to remember that free land and grant money are far scarcer resources than bond financing. For a more detailed look at the financial benefits of bond financing, see Olson, Devon, "Valuing Tax-Exempt Real Estate Bonds," Real Estate Issues, Vol. 35, No. 2, 2010.

not have heavy rent burdens. In all, there are 294 Census Tracts in New York's four most populous boroughs that received some sort of LIHTC funding. Let's ignore the 95 tracts with fewer than 1,000 total units because just a few affordable units or a single new market-rate building could drastically affect their rent burden numbers. Of the remaining 199 tracts, the state agency allocated $71.8 million to build 9,811 units since 2000 in the 75 census tracts with the highest rent burden shares. For the 75 census tracts with the lowest rent burden shares, neighborhoods with minimal affordable housing problems, the state allocated $93.9 million to build 18,055 units.

Quite clearly, the distribution of affordable housing benefits in New York City is not aligned with the location of rent-burdened residents.

But even when affordable housing is built in low-income neighborhoods, the benefit might be small. A new report, Real Affordability, from the Association for Neighborhood and Housing Development exposes critical problems with newly built affordable housing, as many residents cannot afford the rents since they are set on area median income, as opposed to a more localized measure (Association for Neighborhood and Housing Development Inc. 2013).

The report focused on Mayor Michael Bloomberg's New Housing Marketplace plan, which set a goal of creating 165,000 affordable units. While the city is set to meet that goal, the report states that a full two-thirds of the apartments created are too expensive for the majority of residents in the neighborhood. In the Bronx, the average family would need to increase its income by 50% percent to afford the majority of "affordable" units built under the plan (Association for Neighborhood and Housing Development Inc. 2013).

Another approach

There appears to be a strong case for the state of New York to reconsider the generosity of its 80/20 project. It is difficult to know the true level of subsidy developers receive, as the state's bond issuances do not detail the terms of the mortgage note. But, in any case, with fierce competition for New York's bond volume cap, the state's willingness to hand out nine-figure chunks for projects that provide relatively few low-income units demands re-examination.

However, there would be little benefit to shut down the 80/20 program if the newly freed bond cap would go unused, as Moelis suggests.

Considering the state of New York City's affordability crisis, the outsized role of 80/20 in the state's bond cap, and the apparent failure of some 100 percent affordable projects to provide any public benefit, there are several actions the New York State Housing Finance Agency and New York City Housing Development Corp. could take:

- Improve transparency. If the 80/20 program only takes bond cap that would otherwise go unused, the state should prove it. The bond cap is a scarce resource, and the state should reassure the public that taxpayer support for luxury developments does not crowd out 100 percent affordable projects. This could be easily achieved by publishing all applications. Further, taxpayers should know what benefits the developers receive. This means publishing the mortgage note.

- Develop and publish cost-benefit analysis. The problems raised in the Real Affordability Report demand a response. The report implies that certain projects offer zero benefit to the public. If true, it appears city officials are failing to consider submarket income levels when setting affordability rates. The Real Affordability report proposes a simple formula to measure the public benefit of a project. Housing officials need to pursue a similar endeavor and rank projects relative to the cost of the subsidy.

- Eliminate tax-exempt bond financing and 4 percent credits for 80/20 projects. The 80/20 program should be able to continue providing limited amounts of high-quality affordable housing by retaining property tax abatements and zoning exemptions. Eliminating bond financing and 4 percent credits from the program will free up resources for more cost-effective affordable housing.

- Issue a request for proposals to renovate small multifamily properties. Assuming the eradication of bond financing for 80/20 projects would leave some

bond cap unused, a new program could come in to fill the gap. New York City is an ideal test case for the "S-REIT" concept developed by The Brookings Institution's Shekar Narasimhan (Narasimhan 2001) and later expanded upon by William Apgar of Harvard University's Joint Center for Housing Studies (Apgar and Narasimhan 2007). The idea espouses a federally sponsored REIT that would aggregate ownership of small multifamily properties to bring economies of scale to a segment of housing that is poorly managed. Due to strong market fundamentals, New York City's small properties face fewer obstacles than the national model outlined by Apgar and Narasimhan. A prudently crafted policy could use bond financing and 4 percent tax credits, in part, to cash out equity held by the property owner to incent ceding ownership to a joint venture or REIT structure in partnership with a well-qualified redeveloper. The rest of the funds could be used to upgrade a class C property to class A, which would significantly raise the rental rate on the market-rate units, providing sufficient cash flow for debt service and a preferred equity payment to the REIT.

Across the nation, housing policy officials are taking a second look at the cost of construction for 9 percent tax credit deals. Considering New York's generous programs for luxury developments and questionable success on 100 percent affordability deals, state and local officials should consider a comprehensive overhaul. At the very least, they should be willing to provide a defense of current practices.

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Faculty Review

Eric Belsky

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This paper calls into question the public costs and benefits of an affordable housing program offered by the state of New York. In return for delivering 20 percent of the apartments in a property at reduced rents affordable to low-income tenants, developers are given tax-exempt bond financing and a tax credit equal to 4 percent (that can be taken by investors in each of ten years) of most project costs, net of land. In addition, these properties may be granted property tax abatements and density bonuses.

The question this paper sets out to answer is whether public dollars are well spent on this program. Unfortunately, the answer to the central question of the paper is elusive because there is not sufficient public information on the program to draw firm conclusions. The author's request for such information went apparently unanswered.

As a result, the author presents information intended to lead readers to the conclusion that there are good reasons to believe that the incentives to private developers under the program are overly rich. However, the evidence presented is too suggestive to reach this conclusion. The author compares the amount of tax-exempt bond financing per unit of affordable rental housing supplied under the 80/20 program with the "non-80/20" program tax-exempt bond program. Under the non-80/20 program, developers deliver at or near 100 percent of units at rents that low-income households can afford. To make this work, subsidies in addition to the tax exempt financing and 4 percent credits are provided to the non-80/20 properties.

It is clear that amount of tax-exempt bond financing per low-income affordable unit produced under the 80/20 program is many times greater than under the near 100 percent program. But it is also clear that properties financed outside the 80/20-program take many additional subsidies beyond the 4 percent credit and tax-exempt bond financing to pencil out. In the example provided, the non-80/20 development received an additional $1.9 million soft loan that carried zero interest, a $5.5 million loan at 1 percent interest, and a $3.3 million grant to cover land costs. The author does not try to compare the value of these subsidies with a 20 percent affordable project that receives tax abatements and/or density bonuses. And even if he had, it would have been inconclusive without very detailed information to control for any differences in the quality of the properties, the size of the units, and the location of the properties. The last is especially important because without it the discount to the market rent in that location could not be calculated, and this is what government gets for its money.

The author seems persuaded that the incentives provided under the 80/20 program are greater than under the non-80/20 program as well as under the 9 percent tax credit program. But if this were the case, one might expect specialist developers of low-income housing to crowd into the program and compete away any excess profits over time across the three programs. Indeed a developer that does not use the 80/20 program quoted in the paper states there is a need for both 80/20 and non-80/20 deals, and that 80/20 deals that fail to win an allocation do so because they "require too much additional subsidy." In other words, state allocators provide just the amount of support they deem necessary for the project to be viable and to attract private investment. On the other hand, another developer quoted takes the opposite view. He states that he thinks that certain 80/20 deals are "overly generous."

The point is that a firm conclusion about the cost effectiveness of 80/20 properties in general (and

in comparison to other 4 and 9 percent tax credit properties) is not possible.

A related question that the paper raises is whether, therefore, at the very least, the agency that administers the program should provide enough information for the public to reach a firmer conclusion. The author makes specific suggestions of how the state agency could accomplish this. Finally, the author raises the interesting question of whether the state agency should try to direct the 80/20 towards a part of the housing stock widely viewed as especially in need of renovation finance – small rental properties in New York City.

Strategies for Inclusionary Development in the Rapidly Growing City of Ouagadougou, Burkina Faso

Edward Becker and Stefanie Wessner

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Stefanie Wessner is a Master in Urban Planning candidate at the Harvard Graduate School of Design. Her research has focused on hybrid approaches to housing and infrastructure delivery that support social and economic vitality and improved governance at the local scale. Her long-term interest is to work at the intersection of policy innovation, economic strategy, and design thinking to generate responsive and sustainable solutions to informal urban growth in the developing world. Stefanie has a background in Anthropology and has lived, worked, and researched in Paris, New York, Chicago, Barcelona, Amman, Buenos Aires, Cape Town, and Ouagadougou.

Burkina Faso and its capital city of Ouagadougou are on the brink of radical transformation. While Burkina Faso remains one of Africa's least urbanized countries, with only 17 percent of its population residing in urban areas in 2001, its cities and towns exhibit a growth rate greater than 5 percent annually; at that rate, over one third of all Burkinabe will be urbanized by 2030 (UN-Habitat 2006). Additionally, the capital city of Ouagadougou is projected to double in population from 1.8 to 3.6 million within the next decade. "Such rapid urban growth has increased competition over the allocation of urban land titles and comes on top of other problems of persistent corruption, rivalries among local elites, and serious limitations in the democratization of the broader political system"(Harsch 2009). Within this problematic context characterized by high urban growth rates, one must question the role of public and private development in the structuring of effective housing and commercial systems for the city's expanding, and largely low-income, populations.

The specific challenges of designing and planning for affordable housing in Ouagadougou were undertaken last fall by a studio course at Harvard's Graduate School of Design led by Francis Kéré. The research conducted while visiting Burkina Faso included meetings with local government officials, developers, architects, and townspeople in

ZACA Project. Ouagadougou.

the city of Ouagadougou, as well as additional site visits to outlying rural villages. The studio's research illustrated that misconceptions of western-modernism as a productive development model for the Sahelian city negatively influence opportunities for contextually appropriate, sustainable development strategies. Two student projects, highlighted later in the paper, propose alternatives to the euro-centric, modernist approaches to real estate development practices currently prevalent in the city.

To contextualize these proposals, we illustrate the challenges surrounding the primacy of modernization in current development practices through a case study of the ZACA project. We question the prioritization of large-scale infrastructural projects and modern city districts in the context of the city's longstanding crisis in the provision of both affordable housing and basic urban infrastructure. Lastly, the student projects offer alternative frameworks for real estate development.

PART I.

Redefining 'Modernization' Relative to Local Contexts

French influence in the urban structure of Ouagadougou is visibly apparent through both the city's expansive boulevard arrangement and the composition of its most iconic architectural elements, namely the Memorial to the Martyrs, a concrete replica of the Eiffel Tower. These examples are both residual evidences of the country's past utilization as a French colonial hinterland and concrete manifestations of the European-to-African grafting of French urban ideologies. While certain western importations such as the limited-access highway and interchange system have been effectively implemented - resulting in quantifiable benefits for the city - rarely are such skin-deep replications of western systems effective. The conception that what is 'modern,' or progressive, in one geographic context is appropriate for dissimilar contexts is fundamentally flawed and should be re-examined.

Ouagadougou's rapid growth, extreme Sahelian climate, agrarian-rooted urban populous, tribal cultural influences, import-based economy, high poverty rates, and lack of stable financial systems differentiate Ouagadougou from the cities upon which current 'modern' urban models are based. "It is possible to conceptualize modernity in such a way as to avoid both eurocentrism and the type of ultra-relativistic, third-worldist interpretation of the term that views it merely as an ideological means for the further advancement of western cultural imperialism," states Nicos Mouzelis in the essay "Modernity: a non-european conceptualization" (Mouzelis 1999). The perspective of modernity that Mouzelis offers is important to the understanding of development in Ouagadougou precisely because it offers an outlet where development can be both localized/culturally-specific while also being 'modern.' Considering the high degree to which Burkinabe developers capitalize on the public's belief that western-modernism is progressive or capable of increasing status, the switch to a more Mouzelian conception of modernism within Ouagadougou's real estate market would provide the framework for development rooted in the methods and means of local culture. This localized system of development is

more financially and socially sustainable and engenders developmental frameworks that provide a greater degree of financial flexibility for the developer.

While the concept of 'modern' is an evolving notion defined through the collective consciousness, Burkina's recent struggles to elevate its stature as a 'modern' nation through the built form of its capital city emphasize a direct, and ineffective, grafting of western-development models to solve Sahelian problems. A paradigm of this trend is the ZACA extension project proposed in 2001.

ZACA Case Study

ZACA is a plan for the demolition of one of the city's oldest residential neighborhoods to make room for a 100-hectare extension of the city's existing downtown commercial district. ZACA contributes to the production of identical socio-culturally adverse urban outcomes in Ouagadougou, which include the concentration of land uses, growing socio-spatial fragmentation, and the continued push toward exclusionary development. These observed outcomes raise the question of ethical risk in the production of urban development patterns which are neither responsive to local culture and environmental conditions, nor affordable for the city or the vast majority of its residents, therefore putting into question their sustainability as the new archetypes of urban development in Ouagadougou.

Twelve years after the project's official announcement, the State has invested nearly $30 million of public funds in preparing the site (Ouédraogo 2010), forcibly removed and relocated nearly 12,500 residents from the site's pre-existing residential neighborhood (Bertoncello 2010), while only a handful of parcels of the new ZACA extension have been developed, leaving a vast expanse of dirt and wild-grass in the heart of the city's downtown, and a substantial public investment that shows little hope of generating financial returns in the near future.

Announced in 2001 by the national government of Burkina Faso, the ZACA extension project consisted of a proposed expansion of the original ZACA, meaning "Zone for Administrative and Commercial Activities," created in 1991 and [which consisted primarily in rebuilding the dilapidated area surrounding Ouagadougou's downtown marketplace,] accompanied by renovations of water drainage and the addition of sidewalks and parking spaces to facilitate access to the downtown area (Dupuis et al. 2010). When the democratic government behind the ZACA projects came to power in 1987, it claimed a complete overhaul of social, economic and development policy. In reality, this project is a seamless continuation of longstanding exclusionary development politics in Ouagadougou's downtown. Under colonial rule, the French utilized the development of a modern city-center as a tool for exclusion and the expression of its political and cultural authority. Later, the revolutionary regime led a proactive effort to transform Ouagadougou's built environment through the creation of the city's first master plan in 1985, at its helm a plan to renovate and modernize the downtown area to rededicate it to commercial and high-end residential uses (Talierco 2008).

Along with the blind adoption of culturally unresponsive western-modeled development schemes, the ethical risks of real estate investment emerges from the ZACA case in other ways: (1) the production of socio-spatial fragmentation and social exclusion, (2) the weak governance systems, (3) the State's laissez-faire approach vis-à-vis regulation of the private sector, and (4) the imprudent investment of public resources.

1. Exclusionary Development

When the State announced its plan to extend the existing downtown commercial district, the decision was justified in part by citing the surrounding neighborhoods as substandard, allowing the government to rest its argument for ZACA on its civic duty to provide both a better downtown for the city and healthier, safer living conditions for the downtown's existing residents (Talierco 2008). Embedded in this rhetoric, however, is the government's enduring objective of downtown modernization, resulting in continued socio-spatial fragmentation in downtown development, as lower socio-economic classes are distanced from the social, economic, and administrative center of the city due to a lack of affordable housing. Contrary to the inclusionary rhetoric adopted, lower socio-economic classes in Ouagadougou were additionally marginalized through the forced eviction of existing residents, the placement

ZACA Project. Ouagadougou.

of their relocation site on the city's periphery, and the weak provision of infrastructure, community services, and economic opportunity at the relocation site (Biehler 2006). Today, nearly eight years after the relocation took place, the resettlement site has more in common with the informal community which flanks it on the east, than it does with the high-end residential district to its west which effectively severs it from the city (Biehler 2006).

2. Poor Governance

Closely linked to the problem of exclusionary development is the lack of robust governance structures in the current planning and development processes in Ouagadougou. Indeed, while the national government justified the new ZACA project in terms of its local benefits, the planning and implementation process was heavily State-centric with virtually no participation by the city government and poor inclusion of local actors. The national government alone held the power to seize the downtown land and evict its residents, according to the 1984 Land Tenure Reform Act that nationalized land ownership (Campaoré and Kabore). The State, therefore, held a monopoly over repossessing parcels from residents and selling the land at a premium to developers and investors (Dupuis et al. 2010). In the first two years of the project, as protests and demonstrations by local residents increased, the State strategically sought to include traditional power structures by involving local community leaders – or chiefs – to participate on the ZACA's national Inter-Ministerial Committee. This inclusion, though significant in appearance, remained nominal at best and was fraught with bribery and corruption.

3. Laissez-Faire Development

Although the State-centric development process points to a powerful State government, the current standstill of the project reveals a weak system of regulation over development and a laissez-faire attitude vis-à-vis the private sector. Nearly eight years ago, the State began selling parcels of land on the newly cleared ZACA site. Participation in the project required a minimum 30 percent down payment from investors and developers for the purchase of newly cleared parcels of land. Eager to set the project in motion, however, the State became increasingly lenient with down-payment requirements, often securing no more than a 5-10 percent down payment and overlooking investors' potential to default on future payments (Ouédraogo 2010). In addition, private developers in Ouagadougou have a legal obligation to develop newly acquired land within five years of its purchase, but across the city, this law which dates back to the revolutionary regime of 1983 is rarely – if ever – enforced, and the ZACA case is no exception. The leniency in the ZACA project is therefore symptomatic of a larger problem in development in Ouagadougou: the weak and arbitrary regulation of both State and local development policies (LeBris 1997).

4. Irresponsible Public Investment

An estimated $15 million in State investment to-date was projected (in 2001) to be offset by a cumulative increase in tax revenue of $50 million by 2015 on the newly developed ZACA site (Ouédraogo 2010). Instead, the 100-hectare ZACA extension remains virtually empty today, with little hope of generating income for the city or the State in the near future. As the pattern of State-led modernization projects in Ouagadougou is perpetuated, the ZACA extension's failure indicates that unless changes in development policy and implementation are made, public investment will continue to lead to the same urban outcomes, largely benefitting the private sector that shoulders little risk in development, and providing little to no benefit for local actors and stakeholders.

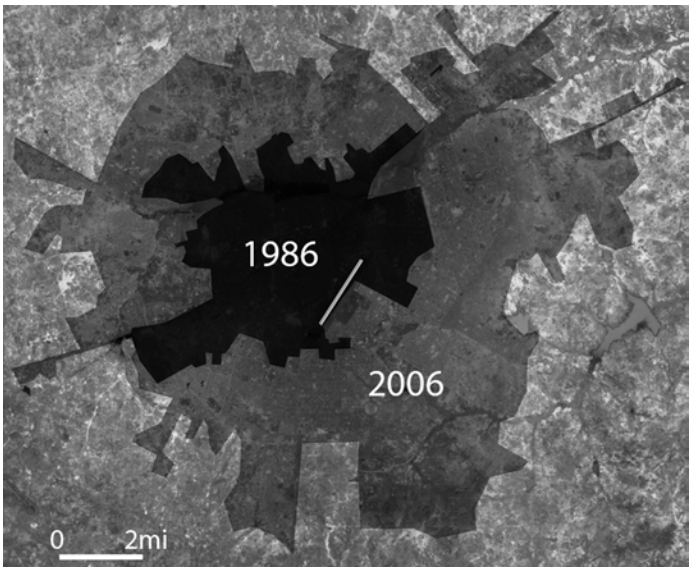
PART II.

The question of ethical risk in Ouagadougou's commercial real estate development practices becomes particularly problematic when placed in perspective of the most pressing need facing the city today: affordable housing provision. First, there is a striking imbalance of public investment and development priorities vis-à-vis the city's persistent housing crisis. Substantial government investment has been directed towards the goal of elevating Ouagadougou's status as an economic and cultural capital in the West African region. In recent years, large-scale commercial and infrastructural development projects have included a luxury residential-commercial district, highway

interchanges, and a proposed international airport. Second, within the city's housing development practices, we find the same issues of social exclusion, weak local governance, and imprudent public investment as observed in its commercial real estate development. Indeed, parallel to the rapid shift toward public-private partnerships in the aforementioned large-scale development projects, the national government recently abandoned its longstanding model for housing provision in Ouagadougou. The new replacement system of public and private residential development is not only unaffordable for a majority of the city's population, but also insufficient in terms of its scale and scope to adequately respond to the city's overwhelming population growth.

Responding to Rapid Urban Growth

While Ouagadougou's recent political history is defined by the decentralization of authority, the urban history is inversely defined by population centralization. The nation experienced a 200 percent increase in urban population between 1975 and 2000 with a majority of that growth occurring in the capital city of Ouagadougou, a growth visually apparent by the unplanned settlements swelling along the city's perimeter. Additionally, between 1960 and 1993, Ouagadougou experienced a 14-fold increase in area with most of the growth resulting from intensified rural to urban migration patterns (NASA Visible Earth). Rural



Rapid Growth Diagram, Ouagadougou. 1986 - 2006

to urban migration continues to be the primary factor contributing to the city's high growth rate.

Ouagadougou's present-day urban fabric is the result of enduring development policies established by the 1983 revolutionary regime which accounts for nearly 80 percent of the city's present-day formal housing stock around the city's edge (Campaoré and Kabore). For 30 years, the State government rapidly and cheaply grew the city's surface area through the distribution of private occupancy rights by lottery to new plots of land, leaving construction entirely in the hands of occupying beneficiary households (Prat 1996). While this model facilitated rapid urbanization in Ouagadougou, without providing urban infrastructure it has failed to respond to the pressures of rapid population growth in an effective and sustainable way.

The hypothesis was that access to water, sanitation, and electricity would naturally occur as households accrued financial resources and became capable over time to pay the public sector for the cost of installation fees. Ultimately, however, the projected accumulation of financial resources at the household level never occurred and a vast majority of the formal city still lacks access to these urban services today.

Today, this system has been replaced by a new public-private development model that delivers ready-built single-family housing on individual plots of land. In this new model, the National Bank for Housing - created by the State in 2008 - purchases new homes directly from developers and distributes the houses to households in return for a down payment and a 20-year mortgage. This model differs significantly from its longstanding predecessor in that private developers, rather than households, are charged with the construction of housing and the provision of on-site infrastructure – roads, water, and electricity – is settled by the government prior to parcels being distributed to households.

The city's previous housing model certainly had its shortcomings, namely its failure to recapture costs through the collection of a loosely imposed beneficiary tax on parcels. It allowed for land speculation, rampant in the late 1990's when parcels granted through the lottery were being sold on a secondary market for nearly ten times the "price" of the land as defined by

the five-year beneficiary's tax. Yet the public-private development model that recently came to replace it in 2010 is also problematic, echoing the same pattern of spatial exclusion apparent in the city's large-scale development projects. It delivers a highly uniform housing market of private, single-family gated plots reminiscent of western residential development that is neither culturally responsive nor affordable to a majority of the population. In addition, this new model absorbs virtually all risk for the private sector which builds quickly and cheaply on public land, selling completed sub-developments at a profit to the National Bank for Housing which then manages sales. Finally, the implementation of this new housing model has created a strong barrier to entry for local small and mid-sized developers by requiring $30,000 of up-front capital in order to obtain a development contract with the State. As a result, since the introduction of the model in 2008, the government has contracted only three developers for the construction of housing in Ouagadougou. Adding to Ouagadougou's housing crisis is the city's limited infrastructure. Most residential neighborhoods tie into a fragile electrical grid, if any grid at all, and sewage is primarily disposed of in pit latrines. Clean water is rare at the household level and most roads are dirt. Large airborne particulates from dirt roads, polluted water from both pit latrines and seasonal flooding, and polluted air from automobiles and wood-fueled cooking fires all negatively affect human health. While the new housing model attempts to respond to the failure to provide basic infrastructure and services to city residents, it fails to address the needs of the vast majority of the population who cannot afford the only housing options currently being offered.

Considering the rapid growth projected for Ouagadougou and the massive amount of new construction that will occur both formally and informally, changes in real estate development practices hold the potential for systemic impact. To achieve this, investment needs to be rebalanced between the large-scale infrastructural developments currently prioritized by the State and the provision of socially appropriate and affordable housing. Public service provision must be strengthened either through increased government oversight and/or through increased local governance structures. Residential development will need to shift away from western models to more effective, regionally specific solutions that improve urban quality-of-life. Finally, new development practices will need to focus on removing barriers to entry, increasing competition among developers to ensure better quality construction, and creating opportunity for small-scale enterprise.

Proposed Development Strategies

Both the ZACA project and the current housing provision model illustrate planning inadequacies and policy failures at multiple stages of the development process. These failures are not isolated issues or anomalies within a well-functioning system, but rather indicate larger problems that reach deeply into the foundational structure of the country and its ineffective systems of governance. Though the amount of political, economic, planning, and architectural innovation necessary to respond to the city's growth challenges are daunting, possibilities for new growth management and real estate development solutions lie in the cross-fertilization and interconnectivity between disciplines. Immigrants bring rural, cultural, and tribal practices into the city, most notably a communal-consensus form of decision-making. Expanding the actors of real estate development to include developers, architects, engineers, and residents engaged in the local agricultural and trade economy could provide the necessary cross-disciplinary teams to innovatively address development challenges.

Two recent projects from Harvard's Graduate School of Design addressed the challenge of rapid growth in Ouagadougou at a systemic level, capitalizing on the potential that lies at the intersection of disciplines. Project 1, designed by architecture students Kwabena Abrah-Asiedu, Edward Becker, Ruyi Igiehon, and Kayla Marie Lim, challenges conventional material usage and re-conceptualizes the notion of 'urban infrastructure' through the rural Burkinabe concept of 'collective space'.

Ouagadougou's contemporary – formal – building stock is primarily comprised of two to four story, site-cast concrete structures. Glass, a material that increases heat gain and limits passive cooling options, is available only for the wealthiest and financing is rarely available to construct an entire building at once. Weak design methodologies in combination with concrete – an

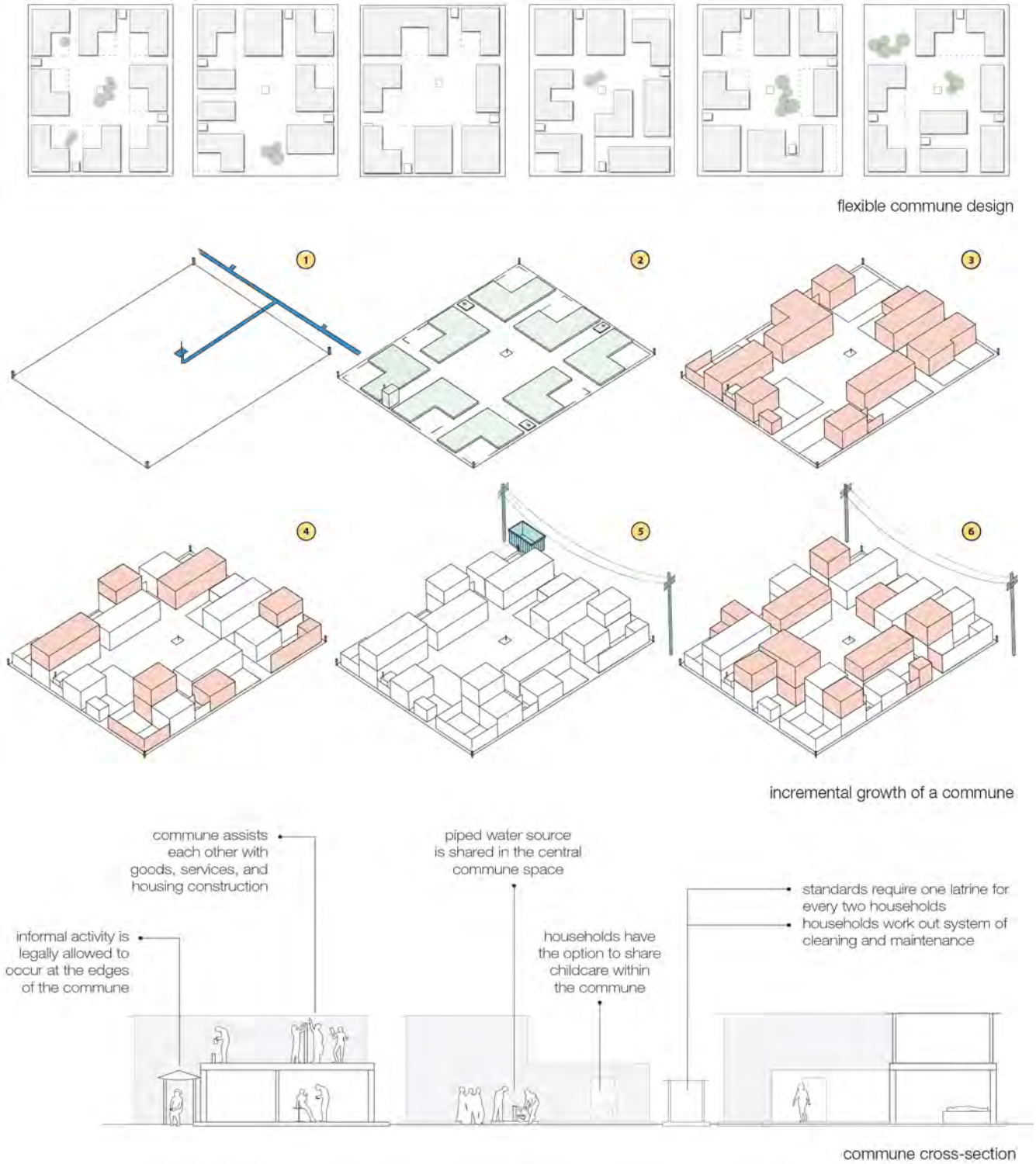
Project 1, Eye-level Perspective - Render

Research Visit Within Urban Slum. Ouagadougou, 2012

expensive material whose thermal potentials are rarely exploited – comprise a building stock thought to be progressive, but in reality drain financial and material resources. Thermally intelligent design, local building materials - including compressed clay bricks and tin roofing - as well as designs to accommodate growth could radically alter the urban landscape of Ouagadougou's formal developments if used in combination with one another.

Based upon this critique, a system for affordable housing was designed in which agricultural 'silos' would support agricultural production. As housing demand increases, the 'silos' shift function and begin operating as 'collectives' – infrastructural chimneys – around which housing is constructed. While the 'collectives' act as an infrastructural seed, the housing they support rings preserved agricultural land. This system where agriculture supports housing and housing 'plugs in' to infrastructural seeds addresses Ouagadougou's growth at an urban level. While the local government would initially fund construction of the 'collectives', standard methods of taxation on informal economic activity would replace government assistance. Collaborative construction, locally-sourced materials, and sweat-equity, all familiar to rural-to-urban migrants, would support housing construction.

Project 2, developed by urban planning students Stefanie Wessner and Regina Yang, proposes to reinvent the city's longstanding model for housing provision based



Project 2, Planning and Phasing Strategies

on the notion that housing should not be simply reduced to the provision of shelter in Ouagadougou, but should be extended to provide social and economic opportunity, as well as access to basic infrastructure and community services. Instead of providing bare parcels to individual households as in the old model, this project proposes to expand standard parcels to larger communally shared plots, each pre-equipped with a functioning water standpipe and four pit-latrines to service a maximum of eight households at once. This commune model would provide affordability to beneficiaries through the sharing of resources and payments on the land, while also making the provision of basic sanitation infrastructure more affordable to the city by combining infrastructure access points for multiple households. To strengthen governance systems and provide better access to economic opportunity, 12 of these communal shared plots together would form a cooperative where neighborhood planning and design would allow households to agglomerate agricultural and commercial space generating both resources for the cooperative as well as creating systems of local community participation. Finally, the project proposes that four cooperatives together would make up a quartier, at which level would be included provision by the city for community and education space, as well as health facilities and paved public roads. With around 400 households, the quartier would form a critical mass for the provision of municipal services and the implementation of minimum qualitative and quantitative standards for development and efficiency.

Ultimately, both projects operate within a common framework of a development model that is at once affordable to the end user, replicable, and responsive in economic, cultural, and environmental terms. Both are an attempt at rethinking the existing strategies in the provision of housing and economic vitality in Ouagadougou toward more sustainable, long-term development practices that would strengthen small and mid-sized developers and support local economies of place.

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Faculty Review

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The authors tackle a complex problem in reflecting on Ouagadougou's urban development challenge. They do well in breaking this problem's various elements down. These elements are the factors that serve to constrain potential strategies and solutions. It is thus important to see the authors noting the way that historical precedent has influenced current spatial use policies, and referring to the role of politics and governance as well. The ZACA case study helps one get a feel for how these issues play out in the context. I especially appreciated the brief but insightful comments about laws that exist but are not actually enforced, rendering the regulatory and oversight framework dysfunctional.

The historical discussion is similarly useful. For me, the section served to underscore how much the city's problems center on political and administrative factors. The lack of basic services infrastructure seems to be a function of this; as does the financing challenge, and the flawed public-private model. I felt that the authors did not reflect fully on the political and organizational dimensions in this discussion, however. This is most evident when they identify skin deep solutions in response to the observed failures: 'rebalancing' infrastructure investments; 'strengthening' public service provision through 'increased oversight' or 'increased local governance structures'; moving away from 'western models'; 'removing barriers to entry'. I would encourage the authors to push into all of these recommendations and think about the political and administrative context—just as they think about the physical context—a little harder: why would the political class prioritize the way they have in the past and can this simply be addressed by 'rebalancing' priorities? What do Burkinabe political structures look like and how would 'better local participation' work in this context? Would more oversight work in a country that already has lots of oversight and where (as the authors note) the regulatory and oversight framework is dysfunctional?

The focus on local context is emphasized in the strategies proposed in the final section, which are interesting and creative. I like the idea of using materials that are locally appropriate and the agricultural silo system and commune models of developing affordable housing sounds like viable and contextually fitted responses to the current situation. The authors note that these are meant to be "responsive in economic, cultural and environmental terms." My challenge to the authors is the same as discussed above: Are the strategies also responsive to the political and administrative 'terms' in this context? What do these technical solutions demand from an entrenched and obviously flawed governance and management system? How would you even get the local politicians and administrators who are invested in the policies of the past to adopt your new strategies? These are not rhetorical questions but are the key concerns the authors should consider if they actually want to give their good ideas some life in the future.

Where Americans Live: A Geographic and Environmental Tally

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1. Introduction

The United States is a suburban nation. Though sizable populations live in urban areas, the trend over the last several decades in the U.S. has been toward increasing suburbanization. Normative views on this trend, though passionate, are varied, and the evidence is often interpreted in light of the advocates' values. Urbanists refer to an ever-rising tide of new urbanites moving back to the central city. Libertarians and free market enthusiasts conversely claim that the public has long voted with its feet to live in areas with less noise and less congestion. Fierce debates continue to rage about the role of federal policies and subsidies -- such as for highways, urban transit, and home ownership -- in driving the location choices of households.

We argue that current land use in the U.S. is the result of households locating where they can secure the greatest personal benefit given their budget constraints. But households do not make their decisions in a vacuum. Economic and political contexts loom large as influences on these decisions. Government policies at all levels can alter the costs and benefits of location choices. Households face a given development pattern, given land uses, and given transportation networks. All such conditions affect their choices. Moreover, the set of options available to them at any point is limited and location characteristics are bundled, preventing optimization on all attributes. For example, in many center cities high quality public schools can be scarce. Each household responds to these legacy circumstances, and its choice further locks in certain patterns into the future.

This essay reviews the current geographic profile of the American metropolitan space and analyzes what we know about household location choices. We avoid using the imprecise characterization "sprawl," as it tends to be used as a "powerful polemical tool" rather than a term to clarify an urbanization trend (Bruegmann 2005). After examining what has been documented about the current land use patterns in the U.S. and the determinants of household location choices, we briefly discuss what justifications, if any, there could be for adopting policies to affect those choices.

The paper proceeds as follows. In Section 2, we present information on the current land use patterns in the United States and how they have evolved over recent decades. We demonstrate that the primary pattern has been decentralization and the rise of polynodal metropolitan areas. In Section 3, we review the largely economic literature on the determinants of household location choices, explaining why people locate where they do. We discuss how the drivers of location choices have produced the current land use patterns we observe. In Section 4 we ask whether there are substantial reasons to be concerned about current location choices and patterns of land use. We discuss consumer sovereignty, externalities, and constraints on choice. Section 5 concludes.

2. Patterns of Land Use in the United States

By the year 2000, over 50 percent of the total U.S. population resided in the suburbs of metropolitan areas (Hobbs and Stoops 2002). Examining 2010 census data reveals that almost three quarters of housing units are single-family or mobile homes. This trend toward horizontal urbanization—development that is more likely to spread laterally than vertically—in the United States has been occurring over many decades. Less than a quarter of the population lived in the suburbs in 1950, while more than half did by the end of the century (Pisarski 2006). More recently, population has been spreading beyond the suburbs (see Fig. 1), as people search for suburban amenities at affordable prices. The downtowns of large metropolitan areas (> 1 million population) have experienced low or negative growth except for the very largest metro areas. Over the same decadal time period, zones more than ten miles from downtown experienced consistent double-digit growth. Exurban areas grew twice as fast as their metropolitan areas between 1990 and 2005 (Berube et al. 2006). The trend toward the periphery, however, appears to have slowed in recent years (Glaeser and Kahn 2004; Angel et al. 2010). While the nationwide average growth rate of suburbs still exceeds that of center cities, the gap has been narrowing since 2005 (Frey

2009). It is as yet still unclear how much of this recent slowdown in movement toward the suburbs is explained by the subprime mortgage crisis, a major jolt to all housing-related decisions. The Brookings Institution recently found that population growth in counties near metropolitan fringes experienced a large decline between 2005/2006 and 2009/2010, while growth rates in cities and inner suburbs rose over the same period (Frey 2012).

This process of suburbanization is not a simple one where households spread out from a central urban node. Indeed, a quite different pattern has emerged. In the highest growth areas of the country, multiple nodes of employment and commercial development have been established following the population migration. The result is a polynodal landscape, where multiple concentrations of employment and urban services dot the metropolitan space. The resulting pattern is sometimes referred to as polycentricity in the literature. Unfortunately, it has received little metrically-informed research (Yang et al. 2012). Polynodal urbanization patterns reduce the traditional magnetic employment pull of the central city, a process generally referred to as decentralization in the literature. For example, only 28 percent of the total metropolitan area employment still resided within the city limits of Cleveland by 1992 (Bogart and Ferry 1999). Data from 1998-2006 further document declining central city employment nationwide, revealing a decrease in share of total employment within three miles of downtown for 95 of the top 98 metropolitan areas (Kneebone 2009). In short, the traditional city center is often no longer the focus of employment or development.

That is not to say that there are not strong urban centers in the US—there are—but most new development and growth has occurred beyond the traditional downtowns. The high-growth areas of the country tend to be in the south and west, outside of well-known cities, with little identifying

them to those outside their immediate region (Lang and LeFurgy 2007). For instance, 20 percent of the 50 fastest growing counties in the U.S. between 2000 and 2009 were located in the suburban periphery of Atlanta. The two fastest growth areas between 2010 and 2011 were Kennewick-Pasco-Richland, Washington and Austin-Round Rock-San Marcos, Texas, hardly famed metropolitan areas (US Census Bureau 2012).

Just as expanses of suburban neighborhoods and multiple nodes of higher job and residential density form new and relatively unknown metropolitan areas in the U.S., these areas are spilling into each other to produce so-called megapolitan areas. Megapolitan areas are clusters of metropolitan areas that exceed ten million people. As of 2005, ten identified megapolitan areas contained over two-thirds of the U.S. population, while 70 percent of future U.S. population growth is expected to locate in megapolitan areas (Lang and Dhavale 2005). These trends pose a complex policy quandary, not just in what should be done, but also in terms of who should do it, as these places stretch across multiple metropolitan and state jurisdictions. Current governmental entities are ill-prepared to handle the geographical size and the interconnections megapolitan areas create. For example, who should determine and who should pay for the cross-jurisdictional infrastructure that they require?

The drift away from center cities by the U.S. population is mirrored by the suburbanization of employment. The decentralization of jobs and the decentralization of the population reinforce each other; in areas where one gets concentrated, the other gets attracted and vice versa (Glaeser and Kahn 2004). This phenomenon, like patterns in residential suburbanization, varies regionally: employment is more concentrated in the northeast and more spread out in the south (Glaeser et al. 2001). However, six of the top ten most-decentralized metropolitan areas were in the midwest and west regions in 2006. All six had over 55 percent of their employment share more than ten miles from downtown (Kneebone 2009).

Transportation patterns also relate closely to land use patterns in the U.S. The most striking fact about U.S. transportation is the complete dependence of the vast majority of households outside of city centers on the automobile. Automobile use both accompanies suburbanization and enables it. Between 1977 and 1995, household ownership of at least one vehicle became very widespread, and the proportion of multi-vehicle households also rose modestly (Pickrell and Schimek 1999). By 2001, 93 percent of all U.S. households owned at least one vehicle (National Research Council 2009). Only about 5 percent of the working population in the U.S. uses public transit to get to work, and this percentage has moved little between 1995 and 2009 (Santos et al. 2011). The automobile is particularly dominant in the fastest-growing, scaled-up metropolitan regions of the south and west. Moreover, the suburban and exurban dwellers drive somewhat more than their urban counterparts: about five more vehicle miles per day per household, according to Krizek (2003).

Automobile ownership does drop as population density increases, but not appreciably until densities are very high. Above densities of 10,000 or more persons per square mile (such as New York City, San Francisco, and Boston, for example), almost 30 percent of households had no vehicle in 2009 (down from 35 percent in 1990), whereas at densities of 4,000 to 10,000, a little over eight percent owned no vehicle in 2009 and at densities below 2,000, only a little over four percent owned no vehicle (Santos et al. 2011). Only two metropolitan areas in the U.S. show levels of public transit usage at or above 15 percent—the New York metropolitan statistical area at 31 percent and the San Francisco metropolitan statistical area at 15 percent (McKenzie 2010). Of note, focusing solely within city boundaries expands the list of places where transit ridership reaches higher levels, such as Washington, D.C., where 33 percent of commuters use transit, although for the entire metro area of D.C., it is closer to 13 percent (Pisarski 2006). This is not surprising as transit use and service increase appreciably with increases in population density; heavy transit use is almost always found within city boundaries. This U.S. dependence on the automobile stands in stark contrast to that of other countries. National Geographic surveyed residents

of 17 countries in 2012 and found Americans used public transit less than anywhere else. Only 15 percent of Americans reported using public transit at least once a week or more, whereas in Russia it was a high of 69 percent. Canada, though much less dense than the United States, had 23 percent of its citizens using public transit (National Geographic and Globescan 2012).

While land use has been shown to influence transportation choices, the impacts found are generally small, such that any non-negligible decrease in vehicle miles traveled or car choice would require substantial changes to many aspects of urban form (Brownstone 2008; National Research Council 2009; Ewing and Cervero 2010). The U.S. is an outlier in this respect. For example, a recent study of the effects of transport policies in the U.S. and Germany found that adding 1,000 more people per square kilometer would decrease the probability of driving by about 3 percent in Germany but only 0.5 percent in the U.S. (Buehler 2010). For the majority of the U.S. population, travel without a car is not an attractive option. Automobile usage is, and will remain, largely inelastic to most viable policy changes in the near future.

This low level of responsiveness to policy in the future does not imply that matters were always this way. Cars need roads, and reviewing empirical studies, Handy argues that historically, highway construction was at least a strong enabler, if not the prime causal force, of suburbanization (2005). An unintended consequence of the increased mobility around cities provided by highway programs was the development of technology centers, office parks, and other infrastructural nodes near airports that entirely bypassed the central business district. With the development of a polynodal, largely suburban, matrix for these new employment centers, a new pattern of transport became embedded. A substantial proportion of trips now start and end in suburban or exurban areas. Between 1990 and 2000, for example, about 64 percent of the growth in commuting in metropolitan areas was suburb-to-suburb trips (Pisarski 2006). Another unintended consequence of automobile usage, contrary to popular belief, may be decreased spatial fragmentation of the population. A large-scale, global study of 120 cities found that higher levels of automobile ownership are associated with lower levels of fragmentation, pointing to the possibility that cars create an infill effect across an open geography (Angel et al. 2010).

Land use choices create legacy effects for future residents, making dramatic changes from current landuse patterns expensive, hence unlikely, in the near term. Infrastructure and buildings live for many decades, and are very costly to move. This means that decisions made in the past regarding the siting of new roads, buildings, and other facilities constrain the options available today, just as our choices today will constrain options in the future.

It is not just physical infrastructure that is difficult to alter. By adding long-standing governmental policies to this decision matrix, a larger picture emerges of a choice set highly limited by legacy effects, hysteresis exemplified. Beyond the cost of changing or replacing physical structures, communities have adopted zoning laws and other ordinances that influence the type of building and density levels that can occur. Most such regulations tend to foster keeping in place the uses that are currently there. Further, vested interests (financial and socio-economic) develop around maintaining the status quo. Neighborhood groups, city councils, and various other stakeholders would likely resist large changes in land use. Interestingly, this was not true in the wake of WWII for areas that are now suburbs. Many of those locations were largely rural, but once roads, communities, and employment locales got established in a moderately dense pattern, they became features difficult and expensive to change.

3. Why Do People Locate Where They Do?

We have undertaken an extensive review of the academic literature examining the prime drivers of residential location choice to further clarify how the current geographic profile was produced. The major determinants of residential location decisions can be grouped into three sets of factors:

1. Aspects of the property,

2. Features of the neighborhood in which the property is located, and

3. characteristics of the household making the decisions.

The first set of determinants includes things like square footage, number of bedrooms, lot size, proximity to highways and transit, and location of the house in relation to household members' jobs or schools. The second set includes factors such as the quality of the public schools, the crime rate, and the tax rate. Finally, the third group includes things like income, age, presence of children, and lifestyle preferences.

When households choose where to locate, they seek to optimize their preferences subject to their budget constraint, as well as the choices that are available on their market. This requires households to make trade-offs among different attributes of a property. Since property characteristics come as a bundle, households cannot optimize on all attributes. A lower mortgage will compete with a larger backyard, a better school, or a shorter commute to work.

While it is clear that an enormous range of factors may influence a household's decision of where to locate, our review of the research on this topic found that three appear to be dominant, on average:

1. Property characteristics, most specifically number of bedrooms, cost, and size,

2. Commuting costs; and

3. School quality for households with children.

First, property characteristics tend to be the most important determinants of residential location choice. They also drive the decision to move (Schachter 2001; US Census Bureau 2011). Of all property characteristics, the size of the house and number of bedrooms have often been found to be among the most important in affecting decisions, along with the price of the home (e.g., Sirmans et al. 2006; Lee et al. 2010). In general, people want as much housing as they can afford. This finding is more likely to hold for certain households, such as larger households, and those with children. This preference has also been found to decline with age, with more senior and elderly homeowners more likely to choose smaller residences. These critical location determinants are clearly linked to "life cycle" events, such as getting married, having children, or having grown children move out of one's home.

Second, commuting costs (particularly time) matter significantly once people decide to move, but rarely drive the decision to relocate (Schachter 2001; US Census Bureau 2011). Households prefer, other factors equal, to reduce their commuting time, and many households are willing to sacrifice other amenities to lower commute costs (e.g., Bhat and Guo 2004; Pinjari et al. 2007; Lee and Waddell 2010). In part this is because if households are spending more in time -- which can often produce dollars -- on commuting, they can spend less on other expenditures, including housing.

A third well-supported finding is that for households with children, school quality can play a dominant role in neighborhood choice (Bayoh et al. 2006; Brunner et al. 2012). Many other neighborhood factors have been found to be determinants, at some level, of the choice of location. They include the crime rate, access to open space, and tax rates, among others (e.g., Dowding et al. 1994; Cullen and Levitt 1999; Knapp et al. 2001). Of all of these, however, school quality is often the strongest predictor of location decisions among households with children.

As this last point highlights, preferences across the population will vary greatly. What is the most important driver of one household's location decision may not be significant for another. Preferences differ according to many observable factors, such as household size, income, age, and region of the country (e.g., Bina and Kockelman 2009; Morrow-Jones and Kim 2009; Lee and Waddell 2010; Kim 2011). There are also unobservable drivers of location choices, such as preferring certain aesthetic qualities, or one's proclivity toward use of non-motorized transportation options, such

as walking and biking.

These findings from the academic research on household location choice provide several explanations for the dominance of the suburban landscape in America. First, it is often the case that cheaper housing -- i.e., more housing for the same dollars, similar housing for fewer dollars, or indeed both -- is available further from center cities and secondary nodes of higher density. This helps to explain why a majority of Americans choose to locate in the suburbs or exurbs, since they perceive having larger homes and paying less for them to be important attractors. Unlike the much smaller countries in Europe, the U.S. has no comprehensive national policy or heavy tax subsidy to protect peripheral agricultural lands. This has allowed for continued development at the urban edge, as farms get converted into residential developments. Second, as jobs drifted to the suburbs across the country, many households were able to reduce commute times by locating in the suburbs (or exurbs). Third, in many areas, school quality is perceived of as better, on average, in the suburbs than in their accompanying city. This explains the finding that families with children often show a preference for the suburbs.

4. Externalities, Ethics, and Choice

Economists commonly assume that individuals make decisions that are best for them, given their options and constraints. If this is the case, individuals should be freely allowed to make their own choices. There are some situations, however, when individuals may not choose what is best for them—for instance, due to lack of information—or when their choices may inflict costs on others, such that it may be in the interest of society as a whole to restrict or influence certain choices. In these cases, free market choices will not lead to social optima.

There are several arguments that our current land-use patterns, and thus current household location choices, may generate negative externalities. We briefly consider the arguments here for the negative externalities of land consumption, energy use and emissions, and carbon footprints. A thorough empirical analysis would be needed to guide any policy changes. One concern with growing suburbanization and exurbanization is land consumption. The average exurban census tract has 14 acres of land per home, whereas the national average is only 0.8 acres per home (Berube et al. 2006). Khan (2000) finds, using American Housing Survey data from 1995, that suburban-dwellers consume twice as much land as urban-dwellers. Concerns about loss of land, however, appear to be largely unfounded in that agricultural production is not threatened by horizontal urbanization, nor is the U.S. generally in danger of running out of land (Heimlich et al. 1991; Glaeser and Kahn 2004). That said, it could be that we are breaking up habitats and ecosystems, imposing costs on the survival of threatened species survival, or even the function of full ecosystems (e.g., Faulkner 2004). Land consumption for housing at the periphery could also be eliminating open space for recreation near population centers, which imposes a different class of cost.

Other concerns about suburbanization relate to higher energy use and emissions, an area that has not to date received substantial research attention. Of the few studies on the topic, findings are mixed regarding energy use and density. One study finds that suburbanites do not, on average, consume more energy in the home than those in center cities (Kahn 2000). Kahn (2000) suggests this could be because those in the suburbs tend to have newer homes with more efficient technologies. This technology advantage could outweigh the other forces that would lead to greater consumption, such as having larger homes. One estimate suggests that those in center cities have an average of 496 square feet per person and those in the suburbs have 570 square feet per person (Glaeser and Kahn 2004). Those in less dense areas are also subject to greater efficiency losses as electricity must be transmitted for longer distances, for instance, and homes further apart cannot buffer each other from extreme temperatures. And indeed, other research finds that residents in less dense counties have higher residential energy use associated with being more likely to live in detached and larger homes (Ewing and Rong 2008). This is further supported by a 2009 working paper which finds that per capita, residents

in large metropolitan areas consume less residential electricity than the average U.S. resident (Brown and Logan 2008).

There appears to be agreement that suburbanites also have higher carbon footprints than their center city counterparts. One account suggests suburbanites produce roughly 10 percent greater carbon emissions (Glaeser and Kahn 2004). Partly this is due to increased driving. One study found that suburbanites drive 31 percent more than those in the city (Kahn 2000). On average across the country, over 10 percent of the population in center cities use transit, but under 3 percent do in the suburbs; for large metropolitan areas, the percent using transit in the city jumps to over 23 percent in the center city but only to 5.5 percent in the suburbs (Pisarski 2006). A more recent regression analysis found that higher population densities reduce residential carbon footprints; specifically, an additional person per acre of developable land is correlated with an 8 percent reduction in carbon footprint (Brown and Logan 2008). However, this research did not account for commercial buildings, industry, and other travel modes. A complete picture of the carbon footprint of denser cities versus fringe areas would require a life-cycle analysis, accounting for products delivered and carbon sinks from forested or grassland areas.

The question is then what, if anything, we should do as a society about negative externalities associated with land use patterns if they prove consequential. Many commentators have argued that promoting higher density is the way to address these negative externalities. This argument is based on studies suggesting a link between density and auto use, such as one that found that a 10 percent increase in metropolitan area density would reduce driving by around 3.5 percent (Kahn 2000). It may be the case, however, that other options are more effective and/or cheaper at reducing the negative externalities of suburbanization. Instead of moving suburbanites into dense areas in the hopes they will then use transit and reduce driving, investments could be made in energy efficient vehicles or renewable electricity sources. These might well generate larger reductions in emissions at lower cost than seeking to increase residential density. Producing a separate, renewable electric grid, using varying sources (photovoltaic, biofuels, etc.) depending on regional differences, for electric vehicle usage could significantly reduce carbon emissions with minimal land use change. Of course, if the policy concern is that energy is underpriced (i.e., the environmental costs of carbon emissions are not included in prices consumers pay), then a more direct and less coercive method to improve outcomes would be to impose a tax on that externality and thus raise the price of energy.

Similar alternative policies could be developed to address externalities from land consumption. At the urbanizing edge of metropolitan areas, agricultural land is often the land use that is converted to housing and other developed uses. If these lands are marginally productive and homogenous, then attaching ecological performance requirements to new planned development could actually improve the overall diversity. Integrating ecological corridors, habitats, and hydrological catchments could buffer the impact of land consumption and produce positive externalities such as recreational opportunities, passive water treatment, habitat expansion, and carbon sequestration.

Finally, recent research has demonstrated that far from being fixed, preferences are often ill-formed and malleable (e.g., Kahneman, 2011, and earlier work, Kahneman et. al., 1982). This has led to recent suggestions drawing on behavioral economics that we can "nudge" people to make choices that are better for society (Thaler and Sunstein 2008). Nudging choices would make good sense if we thought large numbers of suburbanites simply did not recognize the benefits of urban living, or that housing choice was as malleable as being a default organ donor. However, the empirical evidence strongly indicates that individuals are actively choosing to live in the suburbs. We posit they are producing current patterns of land use because it caters to their considered preferences. And they have millions of role models whose experiences influence their own choices. Nudges, in this context, are thus unlikely to generate substantial changes.

Conclusion

Three major lessons emerge from this review. First, there has been a dramatic flow of population to the suburbs in recent decades due to households making sensible location decisions, and the consequences (often unintended) of government policies, such as highway construction and the deductibility of mortgage interest. Though slowing in some areas, this process is still in progress and even growing in other locations. Second, this flow has been accompanied by the movement of both commercial real estate and employment opportunities, ultimately producing polynodal metropolitan areas. The resulting matrix of locations will be extremely difficult to alter significantly, even if the government policies that helped promote this pattern are reversed. There is simply too much capital in place, with over 60 million occupied homes in metropolitan suburbs (U.S. Census Bureau, 2009). Third, there is little evidence that household location decisions are ill advised or that homeowners are making poor decisions given the context in which they can choose their location. If significant externalities from location choice can be identified – and carbon emissions would be a prime candidate – they should be thoroughly documented before any policy measures are taken. Moreover, options beyond density increases should be thoroughly explored.

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Authentically Kiwi: Catalyzing Responsible Development in Queenstown, New Zealand

Ryn Burns and Vaibhav Jain

Author Biographies:

Ryn Burns is a candidate in the Master in Design Studies program at the Graduate School of Design with a concentration in Critical Conservation. He holds a B.A. in Architecture from Princeton University where he focused on sustainability and dynamic systems. He has professional experience in lighting design and environmentally and socially authentic architecture and building in the U.S., Central America and Europe. Ryn's research at the GSD is focused on the remediation and transformative redevelopment of former industrial sites.

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This project was developed as part of Professor Richard Peiser's course, Field Studies in Real Estate. The class traveled to New Zealand in January of 2012. The seminar was sponsored by Torchlight Investment Group, a private equity fund with interests in the region.

The Otago region of New Zealand's South Island has been a popular vacation destination for decades. International flights connect people from around the world with a number of resort, golf, wine, and adventure attractions throughout the region. The proximity of the Southern Alps, the Remarkable Mountains, and Lake Wakatipu has enticed visitors with opportunities for various outdoor and alpine activities. The region gained significant exposure as a premier film set location following the success of the Lord of the Rings series that was, in large part, filmed in the area.

While the principal tourist center and access point of Otago, Queenstown, has a small local population of approximately 30,000 residents (Statistics New Zealand 2011), it sees major influxes of 1.9 million Kiwi and international tourists each year, predominantly during the winter and summer peak seasons. The municipality is keen to further bolster tourism and investment in the region (Everitt, Interview). The town markets itself as the "playground

of the Southern Hemisphere" and boasts a wealth of outdoor and adventure activities. However, this goal is severely hampered by Queenstown's sluggish real estate market, which has a residential absorption rate of approximately 500 units per year (Panel of real estate professionals, Interview). Moreover, topographical challenges such as steep terrain and strict zoning limit the ability of the existing Queenstown town center to expand and develop.

The Jack's Point district has been identified by the City Council and regional authorities as the primary zone for expansion in the Queenstown area (Queenstown Lakes District Council, Interview). Development in this area can generate new economic opportunities and expand both tourism and key services. Our interviews with locals highlighted the need for affordable housing and additional necessary civic services such as new schools and residential solutions for seniors. Jack's Point has established potential to respond to the needs of the local population and to advance plans for Queenstown's growth.

In an attempt to spark interest and investment in the region, the Council approved the construction of an award-winning 18 hole golf course with 50 residential units and more than 500 additional lots that was completed in 2008. The development included the installation of primary infrastructure for a town center. Yet, despite the acclaim bestowed upon the Jack's Point Golf Course, it is one of seven golf courses within an hour's drive of Queenstown and has therefore failed to catalyze significant increases in tourism. The existing, golf-centered real estate development model has moreover proven unsuccessful at establishing a significant source of economic or social growth for the local population.

Our task was to develop a long-term master plan to create a mixed-use village at Jack's Point that responds to the specific needs of the Queenstown community and takes into account the unique opportunities and challenges of this site. The prime location and stunning landscape represent huge potential for attracting investment. This 35 hectare site represents an exceptional possibility to create a satellite extension of Queenstown on one of the last pieces of available developable land in the area. However, any project that aims to insert itself into a pristine natural environment such as the one around Queenstown poses a risk that it will not be ecologically sound. In addition to environmental considerations, the project must likewise be socially and economically viable, both for private investors and for the local community. The ethical solution is thus to build attractions that do not merely cater to wealthy visitors, but that integrate the local population and engender value for the region.

We wanted to create a sustainable, responsible, and ethical development that aims not only to augment investment, but also to concurrently broaden local opportunities, promote Kiwi culture, and preserve New Zealand's natural resources. Our project represents an attempt to reconcile Queenstown's goal of sustainably developing into the premier cultural and recreational destination for the Southern Hemisphere with recent slow growth rates and pressing local needs. Taking into account financial and demographic information, community perspectives and municipal strategies, we developed a plan to build a vibrant community and attract investment to Jack's Point through a series of key operations geared toward the enhancement of economic, environmental, cultural, and social value.

Research + Methods

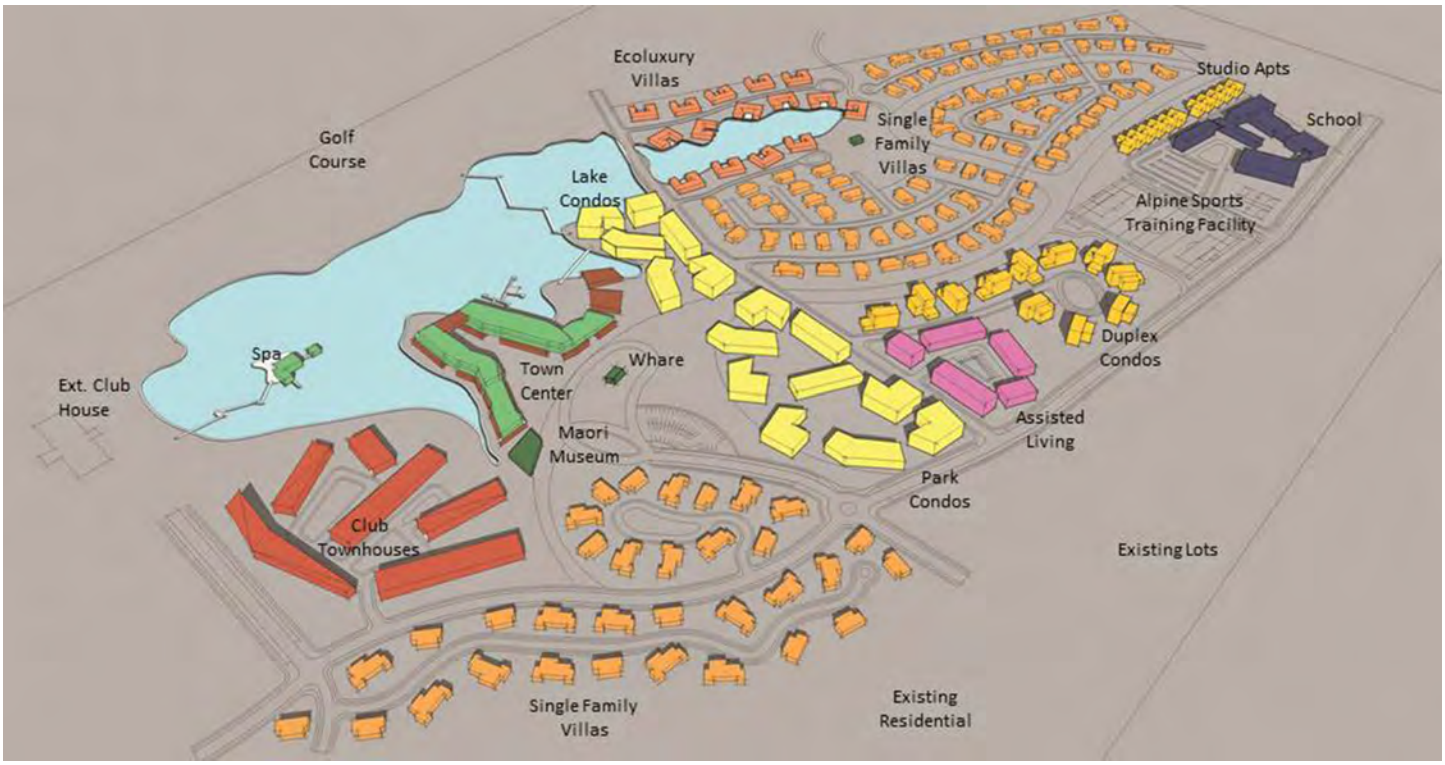
Through site visits, interviews with key stakeholders, and in-depth literature and documentation reviews, we strove to situate the project within a proper historical, cultural, and environmental context, and to align it with Queenstown's vision for future and local needs. Our financial assumptions are based on market trends and projected future growth, supported by interviews and data from local real estate and planning professionals.

Tewa Village at Jack's Point

Our proposed development, *Tewa Village at Jack's Point*, provides varied residential units and creates an active Village Center offering retail, dining, hospitality, and cultural experiences.

Most significantly, the plan proposes devoting a part of the site to the creation of a corporate-sponsored international multi-sport training and research hub. By creating a cluster focused on alpine sports, rather than a high-end golf development, our plan attempts to offer a more equitable model for development in the region that will appeal to a wider range of local and international

Tewa Village at Jack's Point: Project Location and Surrounding Context



Tewa Village at Jack's Point: Site Organization

stakeholders. This complex will include a school as well as training facilities that will provide benefits to both visitors and local residents, and afford relief for inadequate local services.

The balance of the site is split into a number of different sub-development categories centered around the anchoring sports cluster, allowing the master developer to provide diverse residential, retail and hospitality opportunities. By offering a varied selection of product types and phasing solutions, our strategy aims to overcome relatively low absorption rates and high initial investment barriers. The use of context-specific sustainable approaches and the engagement of traditional Maori cultural institutions creates an authentically Kiwi solution for this extraordinary and idle site.

Flexibly programmed public spaces can accommodate events of multiple scales. Commercial spaces are predominantly reserved for businesses that would allow people to experience the diverse culture of New Zealand, which is famous for wine production, local food, crafts, and more. The Village Center can host an assorted mix of galleries and boutiques, as well as retail, hospitality, cultural, food, and entertainment spaces, and can target a range of ages while creating a safe family atmosphere. In addition to a Maori Museum, the center would host various conferences, festivals, concerts, and competitions that would provide additional sources of revenue. Crucially, Tewa Village strikes a balance between local and visiting populations. The Village will generate a critical mass of regular users to support activities in all seasons.

An Active Community

We propose to use a segment of the Village to construct a center for an international sports training, education, and research hub. The alpine sports innovation facility would draw on existing local sporting/adventure economies, unique access to world class mountain terrain, accessibility of the site (less than ten minutes from the Queenstown International Airport), and an increasing film industry presence. This campus would in turn function as an economic cluster, bringing together interrelated sporting industries that are already present in the region. In this sense, the cluster would act as "a geographic concentration of competing, complimentary or interdependent firms with a common need for talent, technology, [and] infrastructure" (Southern Minnesota Initiative Foundation 2004). Agglomerations of interrelated industries can demonstrably foster wealth creation in a region (Kotkin 2001); the Tewa Village cluster will tie into existing economic networks focused on alpine and extreme sports training, research, and documentation.

This property might be offered at a premium to attract leading companies within target industries. Indeed, the center could be presented as a potential base of operations in the Southern Hemisphere for activities of a major player in extreme/alpine sports, athletic technology, or media production, such as Redbull. The cluster would further Queenstown's goal of becoming a major destination for alpine sports, and have the potential to drive innovation and the creation of new products, new companies, and higher paying jobs in related industries (Porter 1998).

Locally, the cluster's facilities can grant many potential opportunities for shared community uses and local economic growth at Jack's Point. Locker rooms, training facilities, classrooms, and gymnasiums can provide benefits for the residential population and for athletes and visitors, helping to promote a health and well-being focused community through sports infrastructure, exposure to knowledgeable experts, and availability of engaging activities and experiences for all ages. This complex would thereby serve as an anchor for the entire development of Jack's Point, enticing a high profile clientele and various service offerings, and help focus athletic and adventure activity in a central physical location. This would help to attract new related services and create employment opportunities and engage local businesses. Major events can also bring temporary influxes and become a source of income for the Village Center.

Environmentally Responsible Design

Our project aims to expand the vision for responsible sustainable growth in the Otago region, increasing value for owners, sub-developers, and future inhabitants of and visitors to Jack's Point and the Otago region.

The proposed Tewa Village is composed of high-performance buildings and landscapes. The use of

local materials in conjunction with efficient prefab building systems allows for reduced costs and strategic construction scheduling. Architecture and site planning were tailored to the specific nature of this incredible site. Energy and resource flows were analyzed, as were hydrology, traffic flows, major view corridors, wind gust mitigation, and capacity for future growth. Sustainable green infrastructures, such as run-off capture swales and bio-engineered wetland filtration systems, provide beautiful and productive landscape elements. We conducted annual solar radiation exposure analysis to help guide the orientation and composition of buildings and landscaping interventions. For example, in the images below, shielded building surfaces (Fig. 1) and courtyards (Fig. 2) can been seen to create cooler local microclimates.

Water plays a major role in plans for the site. The phased expansion of the man-made Lake Tewa creates a beautiful lakeside, inhabitable through networks of pedestrian paths, bridges, and canals. Beaches and kayak launches allow for the direct experience of the waterscape. The presence of water on the site allows for the creation of naturally flowing streams and ponds throughout the community that function as part of the site's green infrastructure. Designed elements intermingle with landscaped and natural environments along the lakeside, along pedestrian paths, and throughout the community.

Phased development avoids the risk associated with a large initial investment and allows for relatively quick and highly efficient expansion of the community through work scheduled principally during low-tourist seasons in the fall and spring. By combining quickly executable prefab construction techniques, the project can be expanded through phased construction, deferring some major costs until later stages. Crafted and natural material elements help to vary the experience and define unique areas within the Village Center.

An Intriguing Cultural Experience

New Zealand has a unique indigenous culture that is relatively unrepresented in the Queenstown area. As a major component of our design, we envisioned the participation of *Maori Arts New Zealand* [1] and similar organizations to help with the design of architectural elements and the operation and curation of a Maori Museum to help advance and encourage the development of contemporary Maori architecture and craft. This collaboration could support the perpetuation and dissemination of native traditions to new generations and extend the experience of Maori culture into a highly visited area of New Zealand that currently lacks a means for people to experience this intriguing and fundamentally Kiwi culture.

The engagement of New Zealand's craft heritage can support important cultural organizations and help pass knowledge and traditions to new generations. This partnership adds real cultural impact to the development project and creates aesthetic and social value.

The involvement of Maori architects and craftsmen can further the appeal of the project by creating visual and cultural interest in the site, and extend the exposure of New Zealand's indigenous culture via architecture, artifacts, and curated exhibits at the museum.

Conclusions

Our design for *Tewa Village at Jack's Point* is founded

on extensive research in order to enhance the value of the site on various levels to create a development that inspires responsible growth for the Otago region. The development is socially responsible and environmentally sound. It will provide Queenstown with new opportunities and help meet the stated future goals of the City Council. The alpine sports innovation cluster will help draw new professionals to the area and create new jobs in emerging, high-growth industries.

The emphasis on outdoor activity ties in with the existing golf program, helps to create a community focus on well-being and provides a focal point for the many adventure and alpine sporting opportunities available in the region. The Maori Museum and continued partnership with cultural organizations increases knowledge and exposure of New Zealand's indigenous art forms and allows the project to have larger social and cultural impacts. Site-sensitive sustainable architecture and infrastructure reduces costs and environmental impacts while promoting best practices in resource conservation.

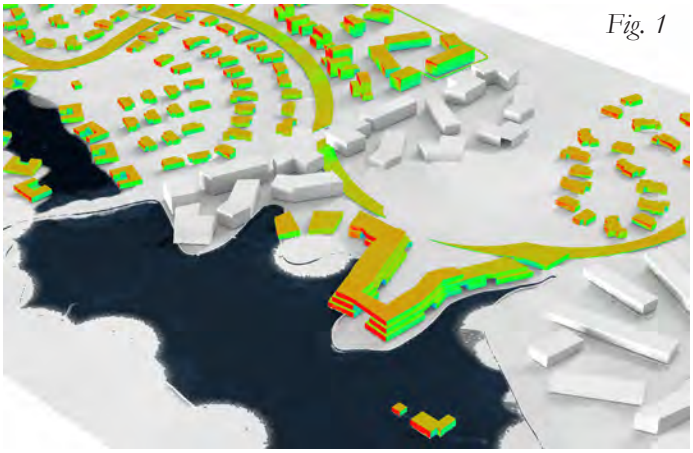


Fig. 1

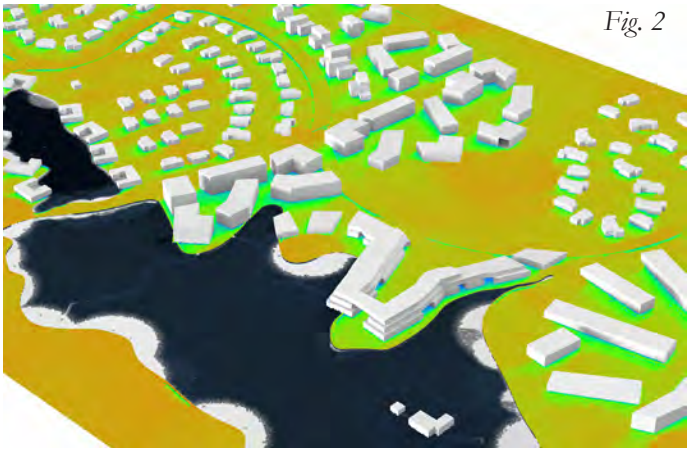


Fig. 2

Annual Solar Radiation Exposure

Tewa Village represents our attempt to craft an authentically Kiwi solution for the responsible and ethical development of this risky but compelling site. The project was well received by the master developers who funded the studio and has impacted their approach to developing in Queenstown in the future.

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Faculty Review

John Macomber

John Macomber is a Senior Lecturer at Harvard Business School where he teaches courses in finance, real estate, urbanization, sustainability, and entrepreneurship.

The Tewa Village project has ambitious goals in each of the three tenets of sustainability: to be ecologically sound, economically viable, and socially inclusive. This proposed $300 million project on 80 acres in a beautiful part of New Zealand would include 450 housing units in a range of price points, and be anchored by a 300,000 sf sports research recreation center. The submission follows a nice template for considering investments with ethical risk.

This review is in three parts: A reiteration of best practices methodology, comments on ways to supplement the analysis, and opportunities to add to scholarly discourse on the topic.

Best Practices Methodology

The project follows an exemplary analytical template:

1. What is the problem? Enhancing economic development in the context of this highly scenic geography.

2. What are the goals? Proposing a sustainable, responsible, and ethical development that takes into consideration many local factors.

3. What is the research methodology? Site visits, interviews, market research, other observations.

4. What is the "reason for being" for the development? To seed an industry cluster that will lead to follow-on economic activity.

5. What are the competitive strengths of the situation? Existing alpine setting, beauty, Maori culture, proximity to a larger city.

6. What are the environmentally responsible aspects of the design? These include considerations of energy, hydrology, traffic, view corridors, wind gust mitigation, capture swales, bio-engineered wetland filtration, solar radiation exposure analysis, as well as landscaped and natural environments with water as a feature.

7. How do we incorporate the local culture? Working with local organizations, incorporating design and craft.

Opportunities for Deeper Analysis

Uncertainties and Key Success Factor

The proposal depends on attracting leading companies within target industries. It is hoped that Tewa Village could be a base of operations in the Southern Hemisphere for activities of a major player in sports, athletic technology, or media. The market analysis would be substantially enhanced with an assessment of how many firms like that are in the addressable market, what their real estate and location needs and budget might be, and how likely it is to attract them to Jack's Point.

Eco-Friendliness

The proposal is quite compelling in its verbiage about design with respect to wind, water, sitelines, and other resource efficiency and aesthetic considerations. No cost or performance figures are cited. It would be instructive to compare the benefit/cost ratios for resource effectiveness of the same building program with a baseline design that did not incorporate those considerations.

Opportunity for Contribution to Scholarly Discourse

Jobs and GDP growth.

"Tewa Village at Jack's Point" is proposed to be the heart of a small economic cluster around international sports training, education, and research. The overall project is aimed at increasing jobs and economic growth in the region. Therefore it would be quite powerful to propose the number of permanent jobs created by the project. The jobs should be further categorized by skill level and mapped to which ones would be performed by local people and which ones by imported people. Second, the economic impact could be projected as some increment to local GDP. Sometimes jobs are a proxy for getting to economic impact.[1]

Without such an economic analysis, the project's ambitions to change the circumstances of the city are very hard to measure, to promote, and to implement.

(1) Obviously, this goes beyond the pro-forma for a real estate deal. As a gross approximation, if the commercial space in the plan is 45,000 sqm (450,000 sf) and there are about four jobs per 1,000 sf, that would indicate about 110 permanent jobs, plus jobs in hotels and in services around the homes. If the total jobs created was 200 and each job generated $250,000 per year of local GDP, that approximation would be $50,000,000 per year of incremental GDP. A rigorous study would then compare that figure with the figure from a less socially oriented, less ecologically friendly building program to see what the difference might be. The third aspect of comparison would be the baseline without intervention: a status quo slow piecemeal buildout.

Dynamic and Durable: Strategic Balance in Community Development Interventions

Thomas Leighton

Author Biography:

Thomas Leighton is a Master in Design Studies candidate at the Harvard Graduate School of Design concentrating in Real Estate and the Built Environment. He served as a Principal Planner with the City of Minneapolis for 14 years, where he played a lead role in planning and community development in the disadvantaged north side of Minneapolis. He was instrumental in the development of the Corridor Development Initiative (CDI) and the Minnesota Block Model (MBM), which have won multiple awards, including the American Planning Association's National Planning Excellence Award for a Grassroots Initiative in 2007. Tom holds a B.A. in Natural Science, and a Master of Arts in Public Affairs from the Humphrey Institute, University of Minnesota.

Introduction

Municipalities and public-minded organizations face a challenge in designing effective interventions to improve conditions in disadvantaged communities.[1] Disadvantaged communities are subject to a set of dynamic conditions that, in the absence of intervention, generally lead to further community deterioration and destabilization. They also lack a base of durable assets that is sufficient to attract either new financial investment, or residents that have locational choices.

Interventions in disadvantaged communities can be thought of as being of two kinds: they can address the dynamic conditions that trouble the community or they can augment the base of durable community assets.

Dynamic interventions include programs to combat crime, transform failing schools, improve health, or enhance job readiness. Durable interventions are significant investments in such areas as transit improvements, adding or improving connections to parks and natural amenities, and concentrated place-making efforts that might include a mix of public and private investments. This article uses the term "dynamic investment" to refer to interventions that target dynamic conditions and "durable investment" to refer to interventions that build a community's durable asset base.

A fundamental strategic question faced by cities and other community development actors is how to distribute limited investment between these two categories.

(1) Disadvantaged communities, for purposes of this article, are communities with high rates of poverty and the associated lack of investment and adverse conditions that are prevalent in such communities.

It is important to recognize that the decision is not presented in this way to public-minded entities, so the question is not commonly considered directly. Many considerations legitimately go into investment allocation, such as the constraints on sources of community development funding and opportunities for partnership and leverage. Moreover, purview over different kinds of intervention is fragmented among various city departments and community organizations.

While acknowledging these realities, there is a benefit to thinking about community interventions in these two broad categories. Modeling the relationship between these intervention types and their impact on community value helps to explain the (sometimes rapid) decline of community value and conditions in certain neighborhoods, and why that suboptimal state is sometimes so persistent. It also provides a basis for suggesting that we may be systematically underinvesting in asset-building interventions in favor of interventions that address dynamic conditions.

The model and insights presented in this article derive from the author's 14 years of experience as a city planner working in disadvantaged North Minneapolis and from teaching community development case studies for a University of Minnesota workshop course on revitalization planning and implementation. The article is also heavily influenced by the research of the Project on Human Development in Chicago Neighborhoods.

The Self-Sustaining Community

Healthy communities are self-sustaining in two ways.

1. **The market works.** Financial investment in property maintenance and new development brings a financial return, so private investment occurs without public subsidy.

2. **The community works.** Healthy communities are, to use the language of Bruce Katz, "neighborhoods of choice"—which means they are attractive to households with sufficient means to choose between alternative locations.

Disadvantaged communities fail these tests. The absence of the first condition is a type of market failure, which leads to deteriorating conditions in the built environment. The absence of the second condition is a type of population failure, where the concentration of poor individuals and families yields a concentration of the issues that are more prevalent among poor households.

The research of Robert Sampson and his collaborators in the Project on Human Development in Chicago Neighborhoods has greatly enriched our understanding of the impact that neighborhoods have on the well-being and prospects of their residents. While residents of disadvantaged communities may face personal and household challenges such as low income, lack of education, or single parenthood, neighborhood conditions exert an additional, independent detrimental impact on their lives. In short, residing in a disadvantaged neighborhood further handicaps the prospects of individuals and households who already face great challenges.

Community value is not easily quantified, yet it reflects a reality in that we recognize improvement and deterioration in communities. Beyond its clear economic connotation, community value should be thought of as encompassing broader notions of community livability and desirability. The value of a community derives from both circumstances in the community (its dynamic conditions) and what it has to offer in a tangible sense (its durable assets).

If community value is represented on a continuum, as on the vertical axis of the graph below, there is a point on that continuum where the value is sufficient

to perpetuate itself—where, to use the language above, both the market works and the community works. The graph also shows that the community value in disadvantaged communities is at a lower level than what is self-sustaining.

The community value of a disadvantaged community may be near, or distant from, the self-sustaining value level. The distance between the community value and the self-sustaining value might be thought of as akin to the aggregate investment that is required to revitalize the community, or to restore it to a healthy and stable state. It would also be related to other measures, such as the amount of subsidy required to attract new development.[2]

Dynamic Interrelated Conditions

The specific factors that contribute to, or dampen, the value and desirability of disadvantaged communities can be placed in two broad categories—dynamic interrelated conditions and durable community assets.

When we think of disadvantaged communities we often think of their dynamic conditions—criminal and unruly activity, unemployment, poor schools, health issues, disinvestment,[3] and diminished collective efficacy.[4] Revitalizing communities is no easy matter because detrimental conditions, once established, are an interrelated system. Causative links run in all directions. The system of conditions exhibits positive feedback, which means that the improvement or worsening of one condition works through a causative loop, resulting in the further improvement or worsening of the condition. In short, detrimental conditions serve to perpetuate themselves, and worsen in the absence of intervention.

Dynamic investments respond to these conditions. They tend to be programmatic and ongoing, although it is not uncommon for surge strategies to be pursued for a time.

Durable Community Assets

Disadvantaged communities tend to have a weak asset base. Those areas with stronger natural amenities were often favored by the affluent in original settlement patterns, and further differentiation in durable investments occurred through both market and political mechanisms.

Durable community assets include both natural features, and public and private capital improvements that were made at particular points in time. They include public infrastructure related to transit and transportation, natural amenities, parks, and open space. Retail districts can be a locus of value, as can historic areas, distinctive corridors, and other types of dynamic and attractive places. Functional services such as post offices, schools, and libraries also confer community value. The entire real estate stock of a community is an additional durable asset and a fundamental base of value.

Communities can also have negative assets (or liabilities). Communities that are divided by, or subject to noise from, freeways or active rail corridors may be negatively impacted. Similar impacts may derive from certain industrial activities or public facilities such as garbage transfer stations.

Community assets can be created, and real estate development often plays a role. Such development is most impactful on overall community value and desirability when it is part of a collection of improvements which creates a place that is recognized as attractive and dynamic, and which becomes part of the community identity. Place-making of this kind attracts new residents and further investment.

Durable investments grow the asset base. They are one-time capital expenditures, as opposed to ongoing

(2) The subsidy level, as a proportion of total development cost, may be observable if some subsidized development is occurring. If not, one could derive an estimate for it using observed market rents.
(3) Although they relate to the built environment, I consider programmatic interventions related to property disinvestment as dynamic investments rather than durable investments. These include programs which support and incentivize commercial or residential property maintenance and upgrades, and infill housing programs that replace former housing stock of the same kind. These programs tend to be ongoing rather than one-time interventions, and dispersed rather than location-specific.
(4) The collective efficacy of a community is the sense of empowerment (or lack thereof) to work collectively to address community issues and conditions.

programmatic expenditures, although there may be associated ongoing maintenance or programmatic expenditures.

The aggregate value of a community's asset base may play a role in explaining a fundamental question in community development. That is, if detrimental conditions tend to worsen in the absence of intervention, why do disadvantaged communities often seem to reach a state of relative (albeit suboptimal) equilibrium over a long period of time? One can observe this relative equilibrium in instances where vigorous dynamic investment is occurring and where it is relatively absent.

In fact, durable assets seem to establish a floor of value in a community. The disadvantaged North Side of Minneapolis has struggled mightily for decades, yet it also retains important assets. It is two to four miles from a vibrant downtown, is well served by transit service, has a signature regional park along one edge, and retains a handsome original housing stock. This constellation of durable assets seems to have established a fundamental base of value that, along with ongoing dynamic investments, has prevented further decline.

A further source of enduring value is the community's aggregate real estate base itself. However dampened by community conditions and disinvestment, its ability to generate an income stream provides an incentive for property owners to preserve a minimal functionality and contributes to the value floor.

The Disadvantaged Community Model

If we accept the notion of a value floor, Figure 4 shows the level of dynamic investment required to maintain community value for a given community. Where community value is high, as at point D, the community attracts private investment and households with choices. It is self-sustaining and requires no dynamic investment to maintain equilibrium. Similarly, little dynamic investment is required to maintain the status quo where community value has declined to a point near its value floor, as at Point VA, since the community's durable asset base serves to retard further decline.[5] In between these points, more significant dynamic investment is required to maintain community value. For example, an ongoing investment of IB is required to stabilize community value at VB.

Where dynamic investment is greater than that which is required to maintain community value (as at any point above the curve), detrimental conditions are being ameliorated and community value will rise, resulting in a rightward value shift in our model. Where dynamic investment is less than required to maintain the status quo, community value will decline (shift leftward), as illustrated in Figure 5.

Note how precarious Point C is in the diagram. Community value is at VC, and the annual public investment is at IC. If a change in the community context results in a decline in community value, Point C shifts leftward and the level of dynamic investment is no longer sufficient to maintain community value. Without increased investment or new interventions, community value will begin to decline, and that decline will continue until it reaches value VA.[6] Point A, by contrast, is

(5) The fact that Point A may require little ongoing public investment to maintain its value does not make it desirable from a policy perspective.

(6) This is essentially what occurred in inner city neighborhoods in the post-war era. Preferences changed with increased mobility, yielding a reduction of value in at-risk neighborhoods. Once begun, values continued to decline until stabilizing at a value level nearer the community's value floor. This suggests that locations where market support is ebbing—such as rural communities or suburbs beyond high quality transit networks—are at greater risk of crossing a tipping point that would lead to prolonged decline.

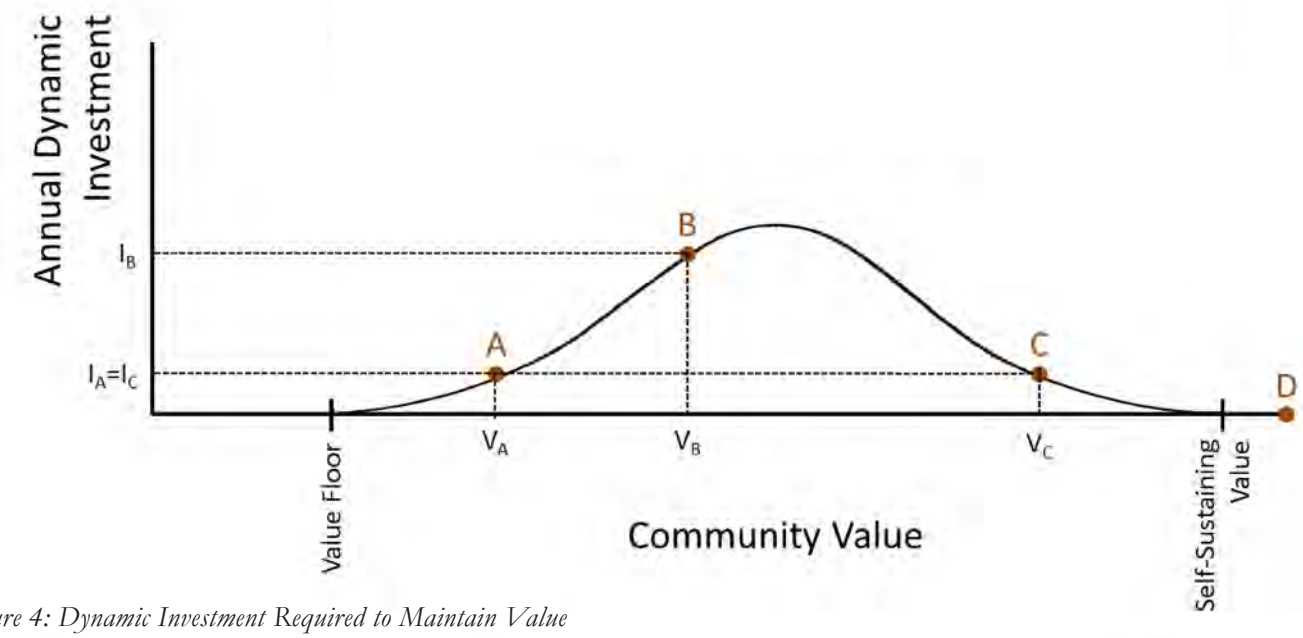

Figure 4: Dynamic Investment Required to Maintain Value

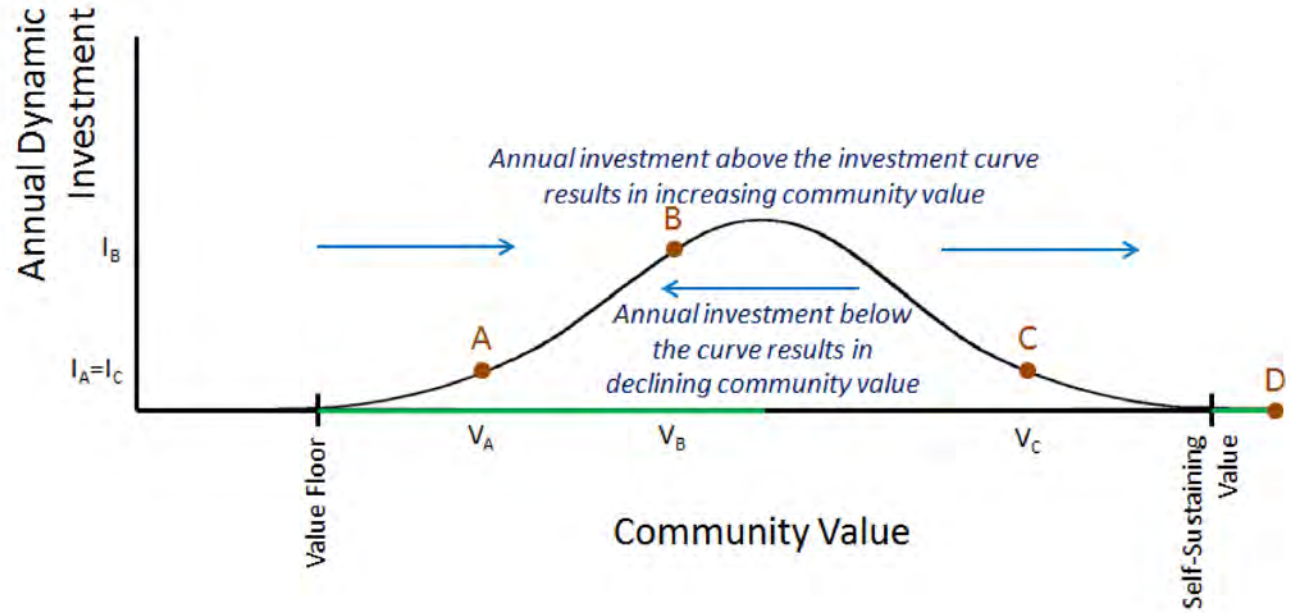

Figure 5: Change to Community Value Based on Level of Dynamic Investment

inherently stable, although we must remember that it corresponds to poor neighborhood conditions and imposes difficult conditions on individuals and families. If positive or negative shocks occur to community value, the existing dynamic investment will return community value to VA over time. One implication of this is that the green segments of the community value continuum in Figure 5 are those where we should observe long-term equilibria.

Modeling Community Interventions

We can now illustrate our two types of community interventions—increasing the level of dynamic investment or investing in the community's durable asset base.

The effect of increasing (or decreasing) dynamic investment has already been discussed, and Figure 6 illustrates two specific instances of this strategy. If the community is at value level VA, and dynamic investment is increased from IA to IB and maintained at that level, community value will appreciate until it reaches a new equilibrium at VB. Harlem Children's Zone represents a rare breed of initiative that focuses entirely on surmounting adverse community conditions through heightened programmatic responses to community conditions. Within a well-defined geographic area in Harlem, the initiative includes no enhancements to the built environment. The project demonstrates that such an approach is potentially viable, at least in some communities, and it also shows the extraordinary cost associated with the approach—the cost of heightening programmatic interventions to the level at which they significantly shift outcomes for children in the community.[7]

If the starting point for community value and dynamic investment is VC and IC respectively, and dynamic investment is increased from IC to IB, community value will improve to the point where it is completely self-sustaining.[8]

Durable investments must be represented differently in the model. Adding to the community asset base shifts and modifies the dynamic investment curve.

When investment is made that enhances or expands the community asset base—as with the introduction of new transit service or the completion of a successful place-making effort—the value of the community improves, whatever its current position on the value continuum. The value floor likewise improves and hence shifts rightward. This compresses the entire curve, and lowers its maximum point. Figure 7 shows a shift in community value from V1 to V2 which results from a hypothetical durable investment. Less ongoing dynamic investment is now required to maintain community value. This should represent relief to cities and other overburdened community development organizations, as illustrated in the cartoon below.

Interventions: Real World Choices

The model shows a mechanism whereby one-time durable investments can reduce the requirement for ongoing dynamic investments. It also suggests the possibility that there may be an optimal mix of

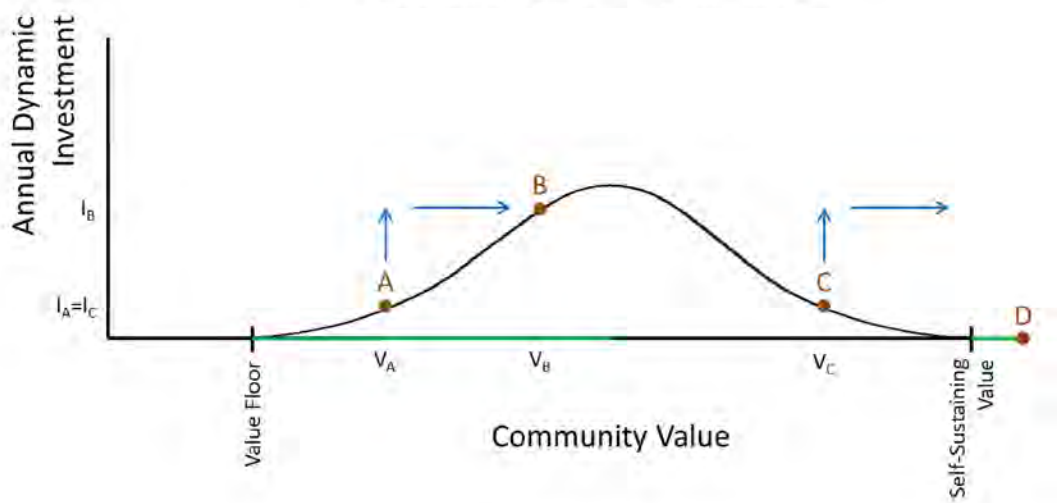

Figure 6: Effect of Increasing Dynamic Investment

(7) While the initiative does not explicitly incorporate asset building, the value appreciation of its Manhattan setting over the last couple of decades has likely worked in the initiative's favor and may have been a necessary precondition to its success.
(8) Communities like these were the focus of the Pew Charitable Trust, in a program it funded titled the Neighborhood Preservation Initiative. The idea was to intervene in neighborhoods early in the cycle of decline, when community recovery may be less costly and long-term stabilization potentially less difficult. Ten working class neighborhoods in nine cities were targeted. Results of the initiative are published in a book titled, "It Takes a Neighborhood: Strategies to Prevent Urban Decline."

intervention types for a given community to achieve long-term community stabilization. In reality, discerning the best approach to revitalizing disadvantaged communities is no easy matter. There are layers of complexity relevant to intervention strategies. What specific opportunities for asset building are available, and what is their impact potential? For what strategies can external resources be leveraged? What is the fungibility of available community development resources across intervention types?

In the absence of good information, cities are likely to default to the methodologies that are already in their tool kits and comfort zones, those which are least costly in the short term, or those which carry the least risk. These considerations may predispose cities to favor dynamic investment programs. Dynamic interventions have the following characteristics, which may lend themselves to be the interventions of choice in the absence of a compelling rationale to do something different.

- **They are familiar.** Cities and other community development organizations will already be addressing a range of issues in disadvantaged communities in an ongoing, programmatic fashion. Increasing or branching out from that base is a way of building from experience.

- **They are efficient.** Programs addressing dynamic conditions have great administrative efficiency in comparison with asset building initiatives. At the outset, programs are designed, resources and staffing identified and allocated, and approval sought, and then they can continue. Where partners are engaged, those arrangements, once established, are also ongoing.

- **They are safe.** At some point in their establishment, existing dynamic investment programs passed the dual tests of leadership support and public acceptance. After that, they may operate for years without facing that scrutiny again. There are risks inherent in trying something new.

Major sources of community development funding are also constrained in ways that make them easier to utilize for dynamic investments than durable investments. They are targeted to specific purposes such as the construction or preservation of affordable

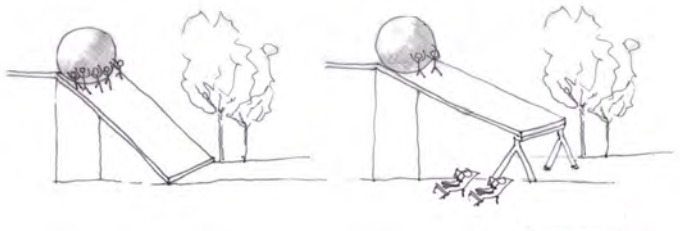

Figure 7: Durable Investment Lightens the Load

housing units or the extension of financing to small businesses. Functionally-targeted funds can be focused geographically to some extent and thus contribute to the creation of location-specific durable assets. But this can be awkward and make the program vulnerable to charges of favoritism. The prevalence of location-neutral affordable housing and business development programs may be an effort to avoid this risk.

Community Development Block Group is an exception to this, in that its flexibility allows locational targeting if desired. And the Choice Communities Program (formerly Hope VI) funds location-specific asset building by design. Moreover, it supports projects of sufficient scale to bolster community value.

Investing in durable asset building entails an additional risk related to community perception and support. There may be a high degree of public support for interventions that address glaring and obvious conditions in disadvantaged communities, such as rundown buildings, vacant lots, and crime. One may not, however, assume a similar level of public support for focused durable investments. Place-making projects may subsidize a set of development projects in a particular location, and add public amenities such as streetscaping, park land, or plazas, to an area that still needs basic services. These types of investment may face greater scrutiny in the eyes of the public, who may not see them as directly connected to improving neighborhood conditions.

Each of the preceding—the perception of risk, the design of funding sources, and comfort with the familiar—has the potential to advantage dynamic investment programs over durable investment initiatives and skew community development interventions away from the optimal mix of investments.

Improved Decisions

If the preceding considerations lead to underinvestment in durable investment relative to the socially optimal allocation it is a cause for concern because that means individuals and families are facing a more adverse community environment than they would under a different mix of public interventions.

The critical elements necessary for improved decisions are better information regarding policy options and effects, and tools for mitigating the legitimacy risks perceived in durable investment strategies. The following recommendations may contribute to augmenting information and reducing risks.

- **Fiscal Modeling and Qualitative Impacts.** When durable interventions are being considered, the story of anticipated impacts should be told as completely as possible. There should neither be exaggeration, nor should important aspects of the story be left untold. While it certainly is difficult to make precise projections of impacts to future property value and tax bases, there are ways to use analytical methodologies, comparison locations, and the experience of seasoned community development and real estate professionals to develop a plausible range of outcomes. Other impacts that should be referenced include the reduction of demand for certain public services and the increased likelihood of attracting additional private investment in the vicinity of the improvements. Quantifying and enumerating impacts can open eyes to the value of durable investments.

- **Professional Practice.** Professional organizations can enhance the legitimacy of durable investment strategies in disadvantaged communities. A mix of programmatic and asset building strategies can be explicitly identified as best practices for revitalizing disadvantaged communities. Communication materials can be developed to illustrate mechanisms and highlight success stories, and these can be made available to local community development practitioners.

- **Communication and Coalition Building.** Ideas change through relationships. Practitioners and leadership should expect to spend time communicating about intervention options. People involved with durable interventions in other disadvantaged communities can be invited to tell their stories or key stakeholders can witness the impacts of intervention strategies firsthand through organizing a best practices bus tour. As thought leaders become more conversant about the impact of durable interventions, they can build support and credibility for these strategies.

Areas for Further Research

The model developed herein is a theory of how public intervention of different kinds impacts community value. This theory has explanatory value in that it is consistent with certain observed phenomena and the author's own experience with a limited number of community development case studies. It may have functional value as well in that it may further our ability to understand and estimate the impact of interventions on community value. This in turn would support improved public and public-minded decision making.

Because of its potential utility, it needs testing. In particular, the concept of a value floor deriving from the community's durable asset base should be tested. Is this concept consistent with the history of communities that have experienced tipping points leading to prolonged decline? What is occurring in communities, such as parts of Detroit, which break through the floor at a certain point?

A second theoretical question is whether there is always a self-sustaining value point given an existing community asset base. It may be that the scarcity of durable assets, and presence of disamenities, in some communities may mean that no amount of dynamic investment is sufficient to reach a self-sustaining community value—although increased dynamic investment would still yield improvement to community value. This would be represented graphically by the bell-shaped dynamic investment curve not touching down on the right side.

Another key implication of the model is that public interventions will have different impacts depending on where the community is on its community value continuum. Does this concept help to explain observed phenomena? Or do similar interventions seem to have similar impacts on community value whether they are near or distant from their sustainable value?

Further research should include empirical work that quantifies the economic impact of particular types of community development interventions. As in much of social science research, a controlled experiment is rarely going to be possible. But great value can be derived from identifying locations where there was or is an infusion of community investment that supports a limited number of strategies. I have no doubt that some empirical work of this kind is already occurring and, to the extent that it is, I support and applaud it.

Finally, we would benefit from studies that help us understand more deeply how community development decisions are made and how the attitudes and preconceived ideas of the public and civic leaders factor into those decisions. This work might support, or cast doubt on, the thesis that decisions are likely to be skewed toward dynamic investments. It may also help us in the design of communication materials to support improved decisions.

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Faculty Review

Daniel Shoag

Daniel Shoag is Assistant Professor of Public Policy at Harvard Kennedy School of Government where he teaches courses in econometrics and regional macroeconomics. He is affiliated with the Taubman Center for State and Local Government.

Thomas Leighton's paper "Dynamic and Durable: Strategic Balance in Community Development Interventions" touches on an important debate in regional economics. The degree to which the fate of communities and cities is ultimately determined by outside, independent factors like geography and technological change, and the degree to which future of a community depend on its history and the decisions of its members, is a vital question. If outside forces dominate, then certain development policies may not make sense, and government might choose a more limited approach towards "place-making". If the fate of communities is not predetermined, though, then governments can play an important role in helping communities avoid tipping points and coordinate on a desirable equilibrium.

To be more concise, if cities struggle for reasons that cannot be fixed, then policy makers should help the residents and not the location. Policy makers might even encourage residents to move elsewhere. If the sources of cities woes can be remedied, however, then government action may play an important role in 'saving' these places.

Mr. Leighton's paper deepens this discussion and considers a more nuanced model. His world is one in which there are multiple possible equilibrium outcomes and a serious role for intervention. He further supposes that communities may have exogenous fundamentals that create a value floor. This value floor ensures that some people will remain in struggling communities even if tipping points are crossed and the place settles into a bad equilibrium.

In my mind, this extension is an important one. If some value and people are likely to be trapped in a location, then this strengthens the need for intervention when it is possible. Leighton's paper makes it clear that, in the presence of these floors, that failure to intervene is that much more costly. I think this is a nice extension of a well known framework and a meaningful contribution to the academic discussion.

Local Government Response to the Foreclosure Crisis: The Case of Minneapolis

Victor Cedeño

Author Biography:

Victor Cedeño is a Master in Public Policy candidate at the Harvard Kennedy School. For his Master's thesis, Victor helped the City of Minneapolis evaluate their foreclosure recovery plan. His policy interests include immigration, education, urban economic development, and city and state government. Prior to Harvard, Victor graduated from Drake University in Des Moines, Iowa with a B.A. in Political Science and Psychology.

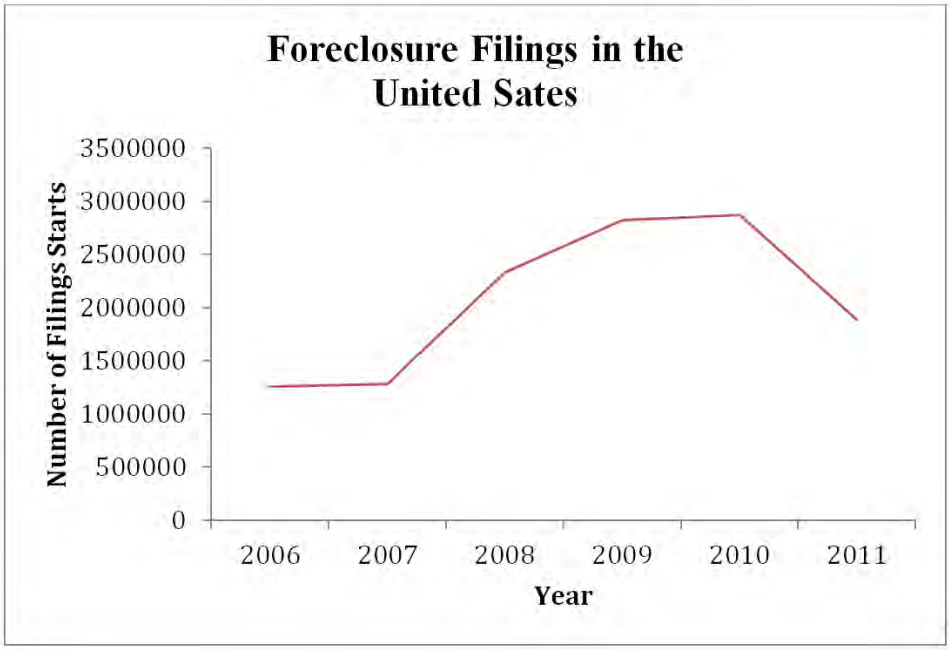
Introduction

Five years after the collapse of the housing sector in the United States, housing is finally recovering. Attention is now shifting to another crisis caused by both the collapse of housing and the Great Recession, the foreclosure crisis. Housing and foreclosures are intimately connected, however, the foreclosure crisis presents unique challenges. The housing recovery is reflected in the rise of prices, sales, and new construction. A strong recovery is able to alleviate on its own the consequences of the collapse. Unfortunately, foreclosure has other consequences that may not be alleviated by a housing or employment recovery. Foreclosed homes often remain vacant. Vacant and boarded homes become blighted properties and may attract delinquency. These factors further depress the quality and value of the properties. The problem is compounded when foreclosures are concentrated in low-income areas as was the case across the United States. As the overall economy and the housing market recover, areas hit hard by foreclosures may be left behind due to a lower quality of housing stock.

The foreclosure problem is most relevant and immediate for local governments. Cities and towns depend on property taxes for revenue; vacant and foreclosed homes lower property tax revenues. The housing stock is also a bigger concern for local governments because, unlike labor, properties are not mobile. Therefore, the foreclosure crisis has the potential to have a long-term impact on cities long after the housing market and economy recover.

Governments at all levels responded with various programs designed to both alleviate and prevent another foreclosure crisis. An evaluation of these programs and the variations within them may help us understand what further steps, if any, are needed.

For the purpose of this analysis, I will focus on the Neighborhood Stabilization Program (NSP) from the Department of Housing and Urban Development (HUD). More specifically, I will focus on how the City of Minneapolis used these funds.



Source: Realty Trac

The City of Minneapolis is an excellent example of the way governments can partner with developers and non-profits to affect the housing sector and impact neighborhoods. These partnerships help avoid the historical challenge that governments have when intervening in housing and revitalization. Instead of acquiring properties with the hope that someone will buy them, the city funds certain non-profits to acquire, develop, and sell the properties. Non-profits and developers have more experience and knowledge about the housing market than the government and therefore are more likely to find owners. This strategy has many benefits for the city, but its impact on the housing market has yet to be evaluated.

Neighborhood Stabilization Program

Congress created the Neighborhood Stabilization Program as part of the Housing and Economic Recovery Act of 2008. This program would come to be known as NSP1. NSP is designed to provide funds for cities, counties, and states to deal with the impact of the foreclosure crisis. Specific uses and timelines were set for NSP funds. Thus far, Congress has appropriated three rounds of NSP:

NSP1 consisted of $3.92 billion to 307 grantees. Each appropriation was based on a formula. To date most of the NSP1 money has been appropriated and spent.

NSP2 was created as part of the American Recovery and Reinvestment Act of 2009. This phase differed from NSP1 in that all funds were appropriated through a competitive process. 56 grantees received a total of $1.93 billion. Money was also appropriated for technical assistance to grantees.

NSP3 was part of The Wall Street Reform and Consumer Protection Act of 2010 (known as the Dodd-Frank Act). This phase returned to a formula and made only $1 billion available to grantees.

According to the HUD NSP website, NSP funds can be expensed for five different types of activities:

- Activity I: Establishing financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties

- Activity II: To purchase and rehabilitate homes and residential properties abandoned or foreclosed

- Activity III: To establish land banks for foreclosed homes

- Activity IV: To demolish blighted structures

- Activity V: To redevelop demolished or vacant properties

Twenty five percent of the funds were to be directed to households making at or less than 50 percent of Area Median Income (AMI), but none of the funds could benefit people making more than 120 percent of AMI.

Programs also need to meet at least one the following criteria:

- Housing Activities: providing or improving permanent residential structures that will be occupied by a household whose income is at or below 120 percent of AMI

- Area Benefit Activities: benefiting all the residents of a primarily residential area in which at least 51 percent of the residents have incomes at or below 120 percent of AMI

- Limited Clientele Activities: serving a limited clientele whose incomes are at or below 120 percent of AMI

Considering the vast number of foreclosures following the housing crisis, an analysis of the NSP is important. HUD gave cities and states the purview to allocate NSP funds according to these criteria. An analysis of varying fund allocation strategies and resulting impacts on the local market will provide us with knowledge and guidance regarding the best way to intervene in the foreclosure market.

Care must be taken when comparing NSP allocation strategies, recognizing every city and state face different challenges and market forces within their housing sector. The following account is that of the City of Minneapolis.

The Foreclosure Recovery Plan

The City of Minneapolis created the Foreclosure Recovery Plan to address the issue of housing foreclosures. The plan is divided into three parts: Prevention, Reinvestment, and Repositioning.

The city works with non-profits to prevent foreclosures and provide counseling to homeowners. The NSP funds are not designed for foreclosure prevention, so the city coordinates with the Minnesota Home Ownership Center and The Twin Cities Habitat for Humanity to provide counseling to families regarding home ownership and foreclosure prevention.
NSP funds are heavily used in the reinvestment phase of the recovery plan to aggressively acquire properties and promote property development. The city also demolishes blighted properties and places properties in its land bank for future development. Since most of the NSP money was used for the acquisition and rehabilitation of property, I will focus on those efforts.

The last phase of the recovery plan is repositioning. The City of Minneapolis works at the individual and community level of foreclosure recovery. Using NSP and other funds it creates a forgivable loan program called MSP Advantage. The loan is for homeowners that buy foreclosed or vacant properties in neighborhoods severely affected by foreclosures. The city also partners with other organizations to find ways to strengthen the housing market.

In total, the City of Minneapolis received $34 million in NSP funds, which it invested throughout multiple parts of its Foreclosure Recovery Plan. The largest of the programs is the acquisition of properties for Activities II and V, rehabilitation and redevelopment. Most of the properties were acquired in the open market or as donations from banks, however, 30 percent of the properties were acquired through one source, the Twin Cities Community Land Bank.

Taking a First Look

The City of Minneapolis works with many public and private partners on its implementation of the NSP. One critical partner is the Twin Cities Community Land Bank (TCCLB). The TCCLB performs the typical roles of land banks such as: community lending, neighborhood recovery, policy coordination, and strategic acquisition. Unfortunately, the TCCLB is unable to hold properties long term because it is not exempt from property taxes and fees. However, the TCCLB has a unique program that enables the main NSP strategy in Minneapolis.

Through its First Look program, TCCLB coordinates with cities and developers to acquire properties at a discount from lenders before they hit the open market.

First Look is a program from the National Community Stabilization Trust Fund, which coordinates with the 30 largest financial institutions to make properties available to local communities. In Minneapolis the TCCLB acts as the intermediary.

The TCCLB acquires the property and transfers it to the requesting city or developer. The program is beneficial for lenders who wish to minimize the time and cost of holding foreclosed or vacant property. It helps cities avoid undesirable investors who speculate on houses and fail to rehab or improve properties. Most importantly, it makes houses available at lower prices that enable developers to do substantial work (Geffen, Interview).

Leveraging Interest

One of the biggest challenges cities face in acquiring and developing properties is they are often forced to hold properties if there are no interested developers or buyers. The City of Minneapolis leverages the interest of non-profit and some for-profit developers that are pre-approved by the City of Minneapolis, and chooses only to acquire properties requested by this pre-approved group. This assures all properties acquired have development interest.

Through the First Look program, the developer buys the property at a reduced price, rehabs it, and sells it. The City of Minneapolis uses NSP funds to cover the gap between the cost incurred by developers and the price received from buyers. The city believes this strategy enables them to impact a larger number of properties than it would through direct acquisition and development of properties.

Reversing Negative Trends

Cities employ this particular strategy because foreclosures have external costs to the community and the city. Blighted and vacant properties lower the values of surrounding properties and invite crime. This in turn makes neighborhoods less attractive for potential buyers, which further depresses home values. One of the greatest challenges from the recent crisis is the upsurge of underwater mortgages. Homeowners with properties valued below their loan amount are more likely to default and enter foreclosure, further exasperating the negative affects on the community and city (Streitz, Interview).

The NSP funds work as a shock to the system with the aim of reversing this downward trend. Rehabbed properties have a better chance of finding an owner, which not only avoids having a vacant home, but will also increase the value of nearby properties. By investing in these properties and finding responsible owners and renters the city can bring back life to affected neighborhoods.

Thus far the City of Minneapolis has purchased 196 properties for rehabilitation and redevelopment (Department of Community Planning and Economic Development, City of Minneapolis 2013):

- 162 homeownership properties: 82 homes have been sold, 17 homes have been rehabbed and listed for sale, and 63 homes are in various phases of rehabilitation

- 34 rental properties (121 units): 53 units rented and 68 units in various phases of rehabilitation

St. Paul Comparison

Studying federal programs in the Twin Cities area provides a unique opportunity to compare the way two similar cities in the same state and metro area implement the same federal programs. Despite being known as the Twin Cities, Minneapolis and St. Paul often approach similar problems in very different ways. Such is the case with NSP. Both cities received funds from all three rounds of NSP, but employed varied strategies in their implementation.

St. Paul received a total of $31 million in NSP funds. Similarly to Minneapolis, St. Paul acquired properties through the First Look program, albeit through a different intermediary than Minneapolis. St. Paul also engaged in all five activities allowed under NSP but focused on the acquisition of properties for rehabilitation and redevelopment. However, St. Paul opted for a more centralized approach.

Most of the properties were acquired and developed by the City of St. Paul as opposed to non-profit developers. A certain amount was set aside for a model similar to Minneapolis' in which gap funding would be provided,

but the City of St. Paul still acquired the properties. Whereas Minneapolis made NSP loans available to households in the NSP areas, St. Paul decided to make such loans available only for properties under Activities II and V (Musolf, Interview).

St. Paul's approach is rooted in a strategic acquisition model. Although both cities used funds in a way that can be classified as strategic, St. Paul had a stronger role in determining which exact properties were acquired. The advantage of this approach was that 100 percent of the necessary funding was available from the beginning. The property would be acquired, developed, and sold all by St. Paul. The initial investment was substantially larger than in Minneapolis, but once the property was sold the money could be recycled and used for more properties.

A drawback to this strategy is that it takes longer to implement. With St. Paul responsible for the total cost of acquisition and development fewer projects can be initiated and others cannot start until the project income from the first set comes in. As such, St. Paul focused its efforts and allocated funds in sequential phases: acquiring many properties, rehabbing properties, and finally marketing them.

Measuring Success

In the ideal world of policy, all government programs would follow these steps. First, a problem is identified and deeply studied and understood. Second, multiple solutions are considered and the best solution receives funding. Third, with specific indicators selected, the project is evaluated throughout implementation. Finally, the entire effort is evaluated for improvement and continuation or termination.

Unfortunately, this is hardly a reality in the world of policy. A crisis hits and in the midst of panic programs are designed and funds appropriated. In the case of NSP, broad rules were established and localities were given freedom to be creative. Local governments are more strapped for resources than national governments and in the face of such scarcity all efforts are focused on efficient implementation. Although indicators of success are established, few if any funds are dedicated to continuing evaluation. This is the reality of state and city budgets where governing must take priority to policy evaluation. Once the crisis subsides, there may be an opportunity to evaluate and assess the efforts.

Such is the situation that governments across the country are facing when evaluating their NSP efforts. They are eager to evaluate and learn of the fruits of their efforts, however, they are running into the challenge of evaluation. It is possible to quantify the number of houses, individuals, and communities touched by a specific number of funds, but the efficacy of such funds is far more difficult to quantify.

Ideally, cities would like to know what the impact of investments in one property is on those nearby and on the neighborhood. The impact could be found in property values, number of foreclosures, vacancies, investments in the community, crime, and other variables. However, to make such determinations a great number of assumptions and an immense amount of data is necessary. Similar models have attempted to answer this question, but focusing on the assumed negative impact of foreclosures. It is unrealistic to expect each city and state to carry out such an extensive study of a program that may not be continued once NSP funds run out.

Nevertheless, cities and states need to have a sense of what success looks like and how to quantify it. Some basic statistics are easy to obtain and track such as number of houses impacted and owner and renter characteristics such as race, previous location, and income. Other housing indicators such as value changes can be evaluated, but attributing trends to interventions is very difficult.

One way to determine the success of these programs is to test the assumption under which they were created and operated. Part of the rationale for the NSP program was it filled a void the post-recession market alone could not. Furthermore, there was the potential for market conditions to worsen as investors acquired and held properties in large quantities without the proper investments and improvements. To prevent this, cities acquire properties, develop some and hold others, but always with the objective of improving them and finding responsible owners and renters. If our assumptions are correct and NSP was successful, then there should be a stark difference between foreclosures acquired under NSP and those acquired by the market or not at all.

This indirect approach evaluates the NSP by asking what would have happened had we not intervened? Important indicators are: did the foreclosed property sell? Who bought it? Were investments made? Did any properties re-sell or go into foreclosure again? Do they have more violations and police calls? Finally, have they increased in value as determined by sales?

There are many limitations to this approach and it only partially answers the question of what is the impact of NSP investments and, more specifically, of strategic acquisition and rehabilitation of properties. However, given the constraints faced by cities and states, some form of evaluation must be done. The federal government may not enact another round of NSP, but foreclosures will continue to plague our cities long past the recovery. We must evaluate our efforts now to determine the direction our future efforts will take.

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US Department of Housing & Urban

Faculty Review

Nicolas Retsinas

Nicolas Retsinas is a Senior Lecturer in Real Estate at the Harvard Business School where he teaches courses in housing finance and real estate in frontier markets and a Lecturer in Housing Studies at the Graduate School of Design. He is Director Emeritus of the Joint Center for Housing Studies.

Since the collapse of the housing market during the Great Recession, we now (sadly) better understand the role of housing in our economy, in our neighborhoods and in the lives of individual families.

Victor Cedeño appropriately focuses on a critical component of this crisis – the response of local governments to the torrent of foreclosures. However, there are challenges to analyzing the data and assessing the efficacy of the local government response.

The initial challenge will be the data itself. Over two million homes are still in some stage of foreclosure. The length of time needed to complete a foreclosure continues to increase; some homes languish over two years in "foreclosure." The author should distinguish between foreclosure filings and actual foreclosures where owners are displaced. The government's response to a defaulted borrower who continues to occupy the home will differ from its response to an empty building.

The second challenge: extrapolating from one city to the nation. The author has zeroed in on Minneapolis. He should provide additional context. For example,

how does their approach to foreclosure mirror their ongoing community? Are any aspects of the housing collapse unique to Minneapolis?

The author provides a good overview of the Neighborhood Stabilization Program (NSP). It would be helpful to assess the overall progress of the program to date. One key data source could be the National Stabilization Trust (www.stabilizationtrust.com) including their summary of best practices.

The third challenge: differentiating community from state from national initiatives. Focusing on how one community responds to the foreclosure crisis is a good way to undertake applied research. It will be important to differentiate between the indigenous strategy of the City of Minneapolis and its role as an agent of the US Department of Housing and Urban Development in administering NSP funds. Using the twin city of St. Paul should highlight the discretion and options available to local communities. However, both Minneapolis and St. Paul are constrained by state laws that limit their discretion in crafting local programs.

The author refers to "many public and private partners" with a particular focus on the Twin Cities Community Land Bank (TCCLB). The author should review the role of land banks nationally in crafting community development strategies. See for example, the land bank in Flint, Michigan (ww.thelandbank.org), which has pioneered new approaches to the redevelopment of distressed areas. The author has appropriately identified measures of success. But the author must differentiate between Minneapolis's response rather than the city's disbursal of NSP funds.

The Holy Grail for foreclosures has been the elusive search for data on what happened to families after foreclosures and to what extent governmental responses improved foreclosure-stressed neighborhoods along with the families in those neighborhoods.

I applaud Victor Cedeño for tackling the right issue at the right time. I am concerned that it will be difficult to analytically separate the impact of the intervention of the City of Minneapolis from the prescriptions and requirements of the NSP Program.

The Role of the Real Estate Industry in Disaster Relief in New York City

Ben Jervis

Author Biography:

Ben Jervis is a first year Master of Public Policy student at the Harvard Kennedy School. After graduating college with a degree in history, Ben worked at the Hudson Square Connection Business Improvement District for three years as Special Assistant to the President and Program Associate. At the Kennedy School, he is studying the successes and drawbacks of public-private urban development and hopes to find more opportunities for grassroots citizen participation in traditional public-private partnerships.

Executive Summary

With Congress authorizing a $61 billion relief package for Northeastern states in the wake of Hurricane Sandy (Hernandez 2013), all eyes are on federal, state, and local agencies tasked with allocating these funds to help storm victims, whether through housing repairs, insurance payments, or to offset other costs. Less attention has been paid to the roles and responsibilities of the private sector, particularly the real estate industry, in collaborating with government to help get victims back on their feet.

This memo discusses and expands on a new partnership in New York City between FEMA, the Department of Housing & Urban Development (HUD), the NYC Housing Preservation and Development (HPD), and real estate industry leaders, including Real Estate Board of New York (REBNY), Rent Stabilization Association (RSA), and New York State Association for Affordable Housing (NYSFAH), in matching displaced New York-area residents with vacant apartments for short- and long-term lease arrangements. While a limited agreement reached in December calls for an online inventory of apartments, accessible by FEMA-registrants (Bagli 2012), there is the potential for more direct assistance that real estate owners can provide. But a more active role from the industry will require the removal of certain legal obstacles by government.

My goal in this memo is to touch on some of the greatest barriers to the existence of a market for short-term housing in New York City, and recommend potential workarounds to these problems. The barriers include poorly structured tax incentives, rigid government regulation of landlord-tenant leases, and a convoluted zoning code. All of these obstacles cannot be understood without also addressing the deep shortages of land and affordable housing which are unique to New York City.

Background

An estimated 20,000 New Yorkers face long-term displacement as a result of Hurricane Sandy (Schwirtz 2012). While the City connected residents with emergency shelters, and even paid market prices for hotel rooms to temporarily house 1,000 of them (Forderaro 2012), there are still those from Staten Island, Brooklyn, and Queens whose homes have been destroyed, or who cannot return for an indefinite period of time. At the same time, there are almost 50,000 people in New York's homeless shelters (New York City Department of Homeless Services 2013).

Meanwhile, New York City and its surrounding areas contain some of the most expensive real estate markets in the nation. The City's residential vacancy rate is just 3 percent, compared to 10 percent nationwide (Citizens Budget Commission of New York 2010). More than half of New York City renters pay rent that is deemed unaffordable by HUD standards (i.e. rent exceeds 30 percent of gross income) (Office of the New York City Comptroller 2012). Since the Second World War, the City has regularly decreed a "housing emergency" to be in existence, providing the impetus for continued rent regulation.

Regulation of land use is just as fierce. New York's Uniform Land Use Review Procedure (ULURP), a seven-month community review process required for any rezoning, makes changes in building and neighborhood use an expensive and tedious process (New York City Department of City Planning). Though employed appropriately at times to curb overdevelopment, New York City's zoning code inhibits short-term residential conversions of industrial and commercial buildings.

Taking all these factors into account, we can hypothesize that with respect to finding housing, New York City residents displaced by Sandy might face a tougher than average climate.

Current Plan

In a press release on December 7th, HPD unveiled an online database listing privately-owned vacant apartments called the "NYC Housing Recovery Portal." While an exact breakdown of the types of apartments has not been ascertained, a majority of the units are in income-restricted developments (generally available only to low- and middle-income households) (New York City Office of the Mayor 2012).

In order to register for the portal, individuals must first attempt to register with FEMA and qualify for FEMA's rental assistance. Such assistance could help offset rental costs, particularly in market-rate apartments that may be out of a household's price range. FEMA has set a maximum rental assistance rate at 125 percent of an apartment's Fair Market Value (FMR) (FEMA 2012).

While landlords play a role in listing apartments in this database, their obligations do not currently go further. A number of economic and legal barriers exist that prevent a more ambitious participation by the real estate industry, such as outright donation of rental units for short-term occupancy. Some of these barriers are detailed below.

Prospect for Property Donation

No federal, state, or local provision exists to provide a financial incentive to landlords for the donation of space. The most common form of property donation in New York exists in the art world, where landlords may temporarily turn vacant retail spaces into "pop-up" art galleries. While such a move reduces the landlord's income—and therefore tax burden—it cannot claim a donated lease as a charitable deduction (American Bar Association 2013). With the exception of the advocacy group No Longer Empty, which helps connect artists to landlords with vacant space, I know of no effort to implement policy that could incentivize short-term donation of rental property for commercial or residential usage (No Longer Empty 2013).

Assuming the enactment of such tax incentives at the federal, state, or local level, would a landlord's opportunity cost of a guaranteed income stream from a leased tenant be too high to make a property donation worthwhile? Given New York's under-supply of housing and the rapid turnover of rental apartments, this assumption might be accurate. However, the City Department of Homeless Services (DHS) has turned temporary housing into quite a profitable business for private landlords, paying well over market value to house

homeless in apartments in Single Room Occupancy (SRO) dwellings[1] (Berger 2013). Though earning perhaps far more than they could recoup with a tax rebate, the DHS case shows us that at the right price, a landlord may forego stable long-term tenants for the short-term homeless and those displaced by natural disasters.

Local governments should run detailed cost-benefit analyses to examine the impacts of providing direct cash subsidies to tenants or landlords for short-term stays. Additionally, tax attorneys and experts should study the economic and political feasibility of reforms in the tax code that benefit urban property owners of multi-unit buildings. FEMA's policy of covering only single family homes through its recovery grants attracted the attention of Senator Schumer, who is requesting that co-op and condo buildings also be eligible for these funds. Federal support of home ownership and financing, including loopholes in the tax code, seems biased in favor of individual homeowners and against larger landlords.

Flexible Leases?

New York City is predominantly a city of renters, with approximately two thirds of all households renting homes. Then just over half of those households are subject to rent regulation laws. These laws not only restrict the amount a landlord can raise the rent from year to year, but more importantly guarantee tenants the right to a renewal lease in nearly all circumstances (with the exception of criminal activity or willful violations of certain lease provisions). As a result, long-term tenancies dot the landscape of New York's housing market, and debates rage on between tenant (grassroots organization groups) and landlord (RSA, REBNY) advocates over the continuation and expansion of these laws.

Such empowerment of tenant groups, along with bureaucratic and laborious rezoning and development obstacles, has led to many of the city's largest builders finding profit primarily in luxury development projects in Manhattan. Further complicating New York housing policy is the fact that New York City and State share authority over rental housing matters, with rent regulation leases and policy set by the State, and matters of housing quality overseen by the City. Most disputes between landlords and tenants are referred to the New York State Department of Housing and Community Renewal's Administrative Court.

These agencies' attempts to improve housing conditions for long-term tenants may have reduced the housing options available for displace residents. In June of 2010, New York Governor David Patterson signed a bill into law prohibiting apartment leases with a term of less than 30 days. Commenting on the potential for the new law to help the City crack down on illegal hotels, Mayor Bloomberg stated: "The bill provides a clear definition of what constitutes transient and permanent occupancy, which will allow City agencies to issue summonses and initiate other enforcement actions against illegal hotels" (Bly 2010). In the case of natural disaster relief, "transient occupancy" allowances might be needed, at least on a temporary basis.

When the Housing Recovery Portal refers to "short-term" leases, we would best interpret it to mean a term compliant with State law, but shorter than one year (one of two typical residential lease periods, the other being two-years). In light of Sandy, however, the State should consider a repeal of the 30-day minimum requirement. And administrative courts and lawyers should examine the potential for crafting short-term leases with more flexible terms for the landlord, reducing the possibility for tenant squatting and increasing landlord confidence in the legal process if an eviction process becomes necessary.

Zoning

Included in the New York City zoning code is a "Community Facility" property use. It allows for the provision of a property to provide "educational, health, recreational, religious or other essential services for the community it serves" (New York City Department of City Planning 2013). Settlement houses are explicitly included under this zoning, and might be used to provide short-term housing to people as a community service (i.e. free of charge) (New York Times 2001).

One key element of the Community Facility use is

(1) Single Room Occupancy (SRO) dwellings are explicitly defined in New York City's Zoning Code. They are characterized by single room apartments, where residents on a floor share a bathroom and kitchen.

that it may be claimed by a property owner as-of-right, meaning that the ULURP process mentioned above is unnecessary. Landlords who wish to convert any portion of a building into a community facility simply need to apply for a permit from the Department of Buildings (New York Times 2001). If such permitting procedures can be expedited in the case of a citywide emergency like Sandy, philanthropic landlords with vacant spaces may find a more flexible environment in readying their units to serve as temporary shelters (Kaback, Interview).

Conclusion

New York City's tight housing market and complex regulatory atmosphere make it difficult to envision ambitious participation by the real estate industry in disaster relief efforts at this time. However, other cities with higher vacancy rates and fewer supply-side market controls might take notice of the opportunity to incorporate short-term rental housing relief in disaster planning efforts. That being said, the current Housing Recovery Portal, a partnership between owners and city officials, provides at least a model for the real estate world to act on its moral and civic responsibilities in times of national crisis.

At the same time, several failed real estate market interventions by New York City and State should serve as warnings to cities with growing short-term housing demand and looming housing stock shortages. Federal, state, and local regulations need to strike a careful balance between the act of permitting and incentivizing the creation of short-term housing markets, and inadvertently compromising on the quality and safety of dwellings in these markets.

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Faculty Review

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What should be done to house those displaced by Hurricane Sandy? Ben Jervis' analysis of the regulatory constraints that prevent the real estate industry from fully participating in post-Sandy New York City raises the important issue of how public and private sectors are best coordinated to deal with the consequences of natural disasters. This topic has received a fair amount of attention when it comes to private sector service and staples provision – take a google, for instance, at search terms like "Walmart Hurricane Katrina." But in this memo Jervis opens up a different topic – how zoning and rental codes either restrict or might enable the built environment itself to facilitate post-disaster support.

The benefits and limitations of the primary response from NYC Housing and Preservation Department are clear: in a market with some of the world's highest demand for real estate, listing of available space, while useful, won't take care of a newly displaced population likely suffering from additional financial stress above and beyond the pain of losing their homes. FEMA subsidies will help some but not all, and the constraints and bureaucratic challenges they create for real estate managers and tenants both will to some extent limit their usefulness. In any case, there isn't much place to put the displaced people. Increased supply is surely necessary to handle the challenge.

The memo highlights some opportunities for regulatory and tax reform that might affect supply. These include tax benefits for donated property, commercial to residential conversion, and more flexible short-term leases, which all could potentially contribute to some easing of supply constraints. I wonder, though, how many units could actually come online with the recommended changes. Even if permitting could be expedited, are there really enough landlords with flexible space ready to switch use? In any case, the challenges in moving swiftly in response to disasters do not necessarily align well with these kinds of reforms.

As Jervis notes, New York City may not be the ideal market for flexible regulatory support for short-term housing to support disaster relief and recovery. But as he also says, the Sandy experience offers a chance to reflect on what might be done to improve the lot of those in need after future disasters in different places.

I'll end with a general comment on an important point in Jervis' conclusion, where he intimates a "model for the real estate world to act on its moral and civic responsibilities in times of national crisis." This raises the question: what are the ethical obligations of the private sector in times of need? We often hear debates about price gouging, or efforts post-disaster to impose some previously held ideas about regulatory reform or urban planning in the new opportunities created in destruction's wake. We could use more thinking on how to define appropriate roles and obligations under times of particular stress – if only to guard against quick fixes that undermine rather than improve on the many balances struck in the existing regulatory and tax maze that Jervis addresses.

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