

# **PSU BROWN BAG SERIES**

## **URBAN LIVING INFRASTRUCTURE:**

### **MARGINAL IMPACT OF SELECTED URBAN AMENITIES ON RESIDENTIAL PRICING**

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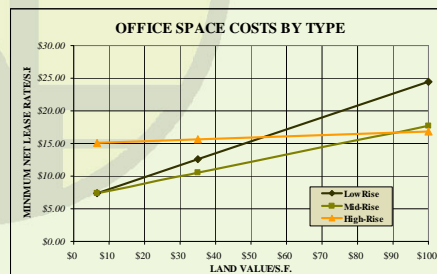
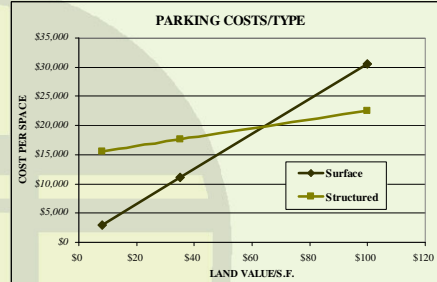
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## **ECONOMICS OF “PLACEMAKING”**

- Creating Vital Urban Environments
- The premium associated with a specific location is a function of marketable amenities
  - physical characteristics of the product itself (size, materials, etc)
  - typical amenities include features such as views, access, schools
  - locally-available amenities
- Economically, savings in travel cost to commonly utilized amenities such as groceries, coffee shops and bakeries have a greater marginal impact.
- Providing a rich and active environment is the key to creating a successful urban concentration

# DENSITY CHALLENGES

- **HIGHER COSTS**
  - Structured Parking
  - Construction Type
  - Infill Construction
- **HIGHEST AND BEST USE CONCLUSIONS**
  - Achievable pricing drives development form
- **SUBSTITUTION MARKETS**
  - Area must be able to achieve a pricing premium vis-à-vis alternative suburban locations

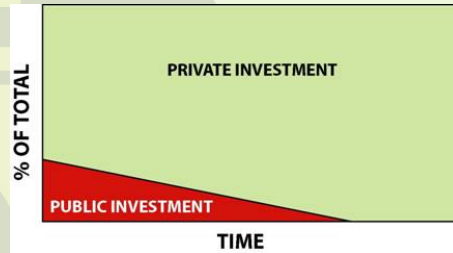


# PRO FORMA RESULTS

- In most suburban locations, urban-density mixed-use development programs do not offer attractive returns
- Unless this fundamental problem is substantively addressed, there should be no expectation that this type of development will occur
  - “Education” of developers over sold
  - Compelling yields attract development interest
  - Few developers interested in theoretical long-term yields

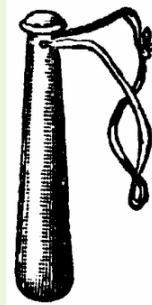
# CATALYST PROJECTS

- Public May Need to “Bridge Gap”
  - Public Participation Bridges the Gap Between What is Viable Without Intervention and What is Desired by the Public
  - Leverage private investment with public investment
- Targeted Outcomes
  - Establish market parameters
  - Shift bid-rent curve over time
  - Provide support for other identified “public goods”
    - More efficient use of infrastructure
    - Higher transit ridership
  - Provide return on investment to jurisdiction
    - Higher assessed values



# POLICY TOOLS

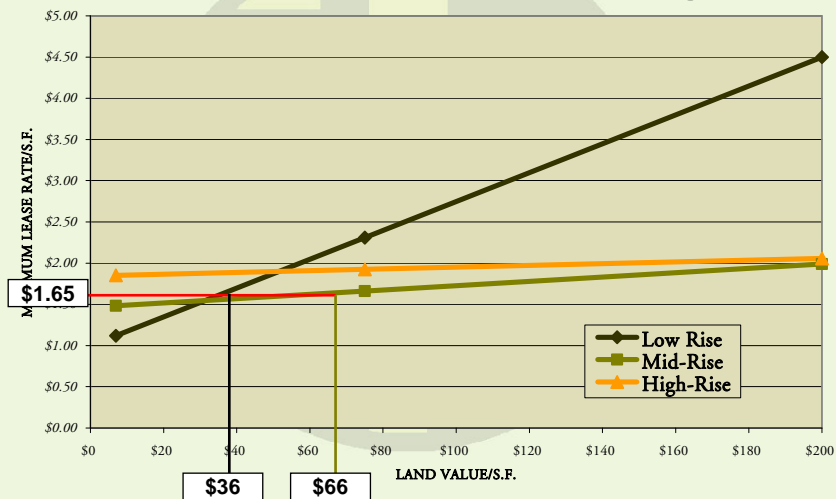
- **INCENTIVE BASED APPROACHES**
  - Allowing density to occur
  - Providing information to facilitate development
  - Providing financial incentives through regulatory relief
  - Providing direct financial assistance to developers.
    - Problem: Funding
- **REGULATORY APPROACHES**
  - Restrict low density; require higher density.
    - Problem: Doesn't Always Make Sense



## ECONOMICS OF DEVELOPMENT FORM

- FROM MARKET PERSPECTIVE, LAND VALUE AND PRODUCT FORM ARE A FUNCTION OF ACHIEVABLE PRICING
- HIGHER DENSITY DEVELOPMENT TYPICALLY HIGHER COST TO BUILD
  - Higher achievable pricing necessary to support higher density development forms

## ACHIEVABLE PRICING AND SUPPORTABLE LAND VALUES RENTAL APARTMENTS



## THEORY

- An “Urban Experience” Can Translate Into Higher Achievable Pricing, Supporting More Intensive Development Forms
  - “Placemaking” theories largely anecdotal to-date
  - Agglomeration of activities is critical to “Urban Experience”
  - Associated pricing premium supports urban development forms
  - Leads to a positive cycle of investment and re-investment



## PRIMARY QUESTION

- DO “URBAN AMENITIES” SUBSTANTIVELY CHANGE PRICING?
  - “Placemaking” term used since the 1970s, yet little substantive analysis to support
- APPROACH
  - Hedonic statistical modeling in a series of Portland metro area neighborhoods
    - Tracked 2006 home sales transactions proximate to various urban amenities

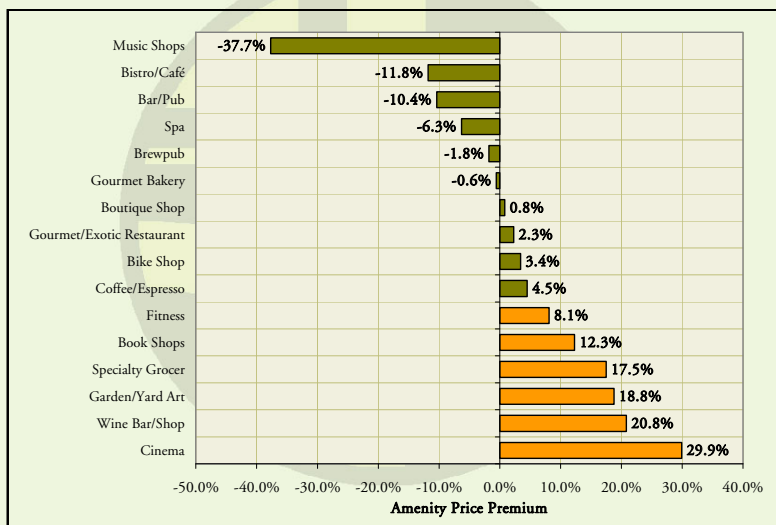


- FIVE DISTRICTS CHOSEN

- Sellwood/Moreland
- SE Clinton Street
- Multnomah Village
- Lake Oswego
- Murray/Schools



## MARGINAL IMPACT ON RESIDENTIAL PRICING



SOURCE: Johnson Gardner, LLC

## INTERPRETATION OF RESULTS

- RESULTS CLEARLY DEMONSTRATES A SIGNIFICANT PREMIUM ASSOCIATED WITH A RANGE OF URBAN AMENITIES
  - We would consider the tenant types to all represent desirable neighborhood amenities, but this was not reflected in the results
    - May be attributable to limited range of study
    - Instances in which tenant types reduce values
    - Results varied depending upon the type of product

## POLICY IMPLICATIONS

- A STRATEGY TO SUPPORT AND EXPAND THE URBAN AMENITY BASE IS SUPPORTIVE OF REALIZING MORE URBAN DENSITY DEVELOPMENT FORMS
  - Can be more cost effective than project-specific support
- ACTIVE SUPPORT OF TARGETED URBAN AMENITY TYPES
  - A positive shift in achievable pricing benefits both new and existing properties
  - Can trigger broader positive investment cycle

## GENERAL CONCLUSION

*“The ability of centers in Portland to support a transition to higher density development patterns over time is a function of their ability to provide an “urban experience” that delivers a marketable amenity consistent with what is needed to achieve the desired development forms.”*

## Recommended Program Strategies for the TOD & Centers Implementation Program

1. “Proof of concept” investments - supporting projects that test and hopefully demonstrate market support and achievable pricing for a targeted development form. (Ex: The Crossings; North Main Village)
2. Investment in urban amenities - increasing the attractiveness of a center, thereby generating a marketable premium that would be reflected in higher achievable pricing.
  - Common area improvements (parks, plazas, streetscape); and
  - Urban living amenities - (specialty grocers, theaters, etc.).



**Copies of this presentation will be posted at [www.johnson-gardner.com](http://www.johnson-gardner.com)**

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