

Communities By Design, a
nonprofit 501c(3) training and education
organization, in cooperation with the
City of Redwood City,
is pleased to present:

The Forum *at Redwood City*

A CONTINUING CONVERSATION ON CITY DESIGN



THE ECONOMICS OF MIXED-USE: A NEW OPPORTUNITY FOR DOWNTOWN DEVELOPMENT

2004-05 SEASON: FORUM #5
WEDNESDAY, FEBRUARY 2, 2005
LITTLE FOX THEATER
2209 BROADWAY
REDWOOD CITY
6:00 P.M. - 7:45 P.M.

On February 2, 2005, the City of Redwood City and the nonprofit “Communities By Design” hosted the fifth presentation of the 2004-05 Forum season, with a presentation by **Denise Conley**. Ms. Conley – who is Principal of Conley Consulting Group, a real estate economics and development strategy firm based in Oakland, California – spoke about “The Economics of Mixed-Use: A New Opportunity for Downtown Development.”

For many years the Gaslamp District in downtown San Diego had a reputation for being an undesirable quarter of the city, lined with seedy bars frequented by often unruly and disruptive patrons. But the Gaslamp of today is much different than it was in the past, as Ms. Conley explained in the opening of her Forum presentation. The derelict buildings and run-down shops that were long fixtures of the neighborhood have been replaced with glistening high-rise towers and lofts, and a bustling restaurant and an active nightclub scene.

The San Diego example is representative of what Ms. Conley sees as a larger set of trends that are taking place in the housing market across the country: a return to downtowns, an acceptance of urban density and changing household composition. Ms. Conley’s Forum presentation focused on these three trends and the market mechanisms that drive them.

The economics of urban development can be explained by using the metaphor of a train, or what Ms. Conley calls the “choo-choo rule.” The market is the engine of the train that is pulling the community “caboose” forward. The challenge of successful downtown development is finding a way to link the driving force of the market with the community’s preferences.

The lifestyle and demographic trends afoot today have created a chronic undersupply and strong demand for urban housing products. According to Ms. Conley, urban residential development is one of the fastest growing segments in the housing industry today. The demand for downtown living is so strong that in some areas multi-family home prices are higher than single-family homes – a departure from the long-held assumption that traditional housing products will always command higher prices.

The demographics of the urban housing consumer fall into three categories: Baby Boom, Generation X and the Echo Boom. Although the definitions of these groups is the subject of much debate, Baby Boomers are generally thought to include anyone born 1946-1964, Generation X includes people born between 1965 and the late seventies, and the Echo Boom includes anyone born after the late seventies.

Baby Boomers occupy a significant share of potential urban homeowners because many of them no longer have children living at home. These “empty nesters” – usually between 40 and 55 – are happy to leave the burden of home upkeep and yard work behind in favor of a low-maintenance luxury urban mid/high-rise tower.

Ms. Conley admitted that she has difficulty predicting the behavior of Generation X because the tastes and preferences of this demographic group vary widely. However, Ms. Conley has identified the tastes and the preferences of two groups within Gen X that are attracted to living in urban centers. “Urban Pioneers” are typically well-educated males between the ages of 30 and 45 that work in the art or technology industry. This group prefers the cutting-edge design and gritty locale of an urban loft. Yuppies and “People in Black” (PIB), a phrase coined by Ms. Conley, are single professionals or couples with a few kids, usually between 25 and 45 years old. This segment of Gen X tends to choose the luxury and convenience of a mid/high-rise apartment tower.

Since 1990, one-third of the Echo Boom generation has been comprised of immigrants. In the future, two-thirds of this group is expected to represent minorities. The diversity of this group and the traditional suburban upbringing of many of Echo Boomers, leads Ms. Conley to believe that this group will not follow their parents into the suburbs and will instead opt for a more urban living arrangement.

Urban centers are becoming more attractive places to live because of the lifestyle and quality of life that it affords. Instead of battling congestion and hour-long commutes, people are forsaking the suburbs for the convenience and livability of cities and car-free travel. Many people are drawn to the downtown living for cultural and social vibrancy that is oftentimes lacking in suburban areas. The proliferation of suburban “neo-urban” centers, such as Walnut Creek, has made downtown living at many scales an attractive alternative.

Unlike residential development, the market for office space in urban centers is saturated. Even so, Ms. Conley believes that there’s a niche within the office development market for spaces that would better serve the creative class businesses of the new economy. Instead of building more grey, cookie-cutter office buildings, there’s a need to create office space that would better complement the work of the lessee.

The retail component of mixed-use projects can often be the most challenging. Ms. Conley emphasized the importance of leasing retail space only after the residential units have been sold. That way, the profits from the sale of the residential space can be used to offset any losses from retail tenants. Ms. Conley compared retail tenants to small children: they require a lot of care and work before you see a smile.