

Summary Report

National Forum on:

Encouraging Market-Rate Infill Housing Development

A Forum Sponsored by:
The Urban Land Institute and
U.S. Department of Housing and Urban Development

**April 10, 2000
Washington, D.C.**

Table of Contents

	<u>Page</u>
I. Introduction	3
II. Participants	5
III. Comments by HUD	7
IV. Lessons Learned	8
▪ Case Study I: The Parks at the Cathedral Townhomes	
▪ Case Study II: Alban Towers	
▪ Case Study III: Park DuValle	
V. Discussion of Barriers to Infill Housing Development	18
▪ Planning and Regulatory	
▪ Community	
▪ Design	
▪ Land Acquisition and Assembly	
▪ Market	
▪ Financing	
VI. Next Steps	25

I. Introduction

On April 10, 2000, the Urban Land Institute (ULI) convened a group of 21 high-level, land use and real estate development experts and practitioners to participate in a one-day policy forum entitled *Encouraging Market-Rate Infill Housing Development*. The forum, which was co-sponsored by the Department of Housing and Urban Development, was held at ULI's headquarters in Washington, DC. Private and not-for-profit real estate developers, urban design/architects, financiers, market analysts, attorneys, public officials and urban revitalization experts from around the country examined the obstacles to, and opportunities for, developing market-rate, infill housing in the nation's cities and older suburban neighborhoods.

Infill development is an important component of any community's smart growth strategy, yet, in many areas, developers and public officials face significant roadblocks when attempting to develop housing on infill sites. The objective of the forum was to clearly define and discuss these barriers and to identify ways that developers and policy makers have joined forces to eliminate obstacles to the development of infill housing.

Smedes York, president of York Properties, ULI Trustee and active developer of infill housing in Raleigh, North Carolina chaired the forum. Mr. York began the program by highlighting key trends giving rise to the return of individuals and families to urban areas. In many major metropolitan areas around the U.S. the market for infill housing has never been stronger as baby boomers and empty nesters leave their larger, single family homes in the suburbs and relocate to urban areas to take advantage of amenities, entertainment opportunities, reduced commuting times and neighborhoods with character. However, renewed interest in downtown living brings with it pressure both to find adequate infill sites and to identify strategies for the development of new housing.

The three case studies presented at the forum focus on three successful yet markedly different infill projects.

The first case study, the Parks at the Cathedral Place Townhomes in Jacksonville, Florida, is an excellent example of how a committed administration and productive partnership between a local bank and church resulted in a first-of-its kind townhouse project that now serves as a catalyst for downtown revitalization in Jacksonville. Strong leadership by the city helped the developer overcome market acceptance by offering significant incentives and streamlining the permitting process. The developer's attention to quality and safety has helped make this project a success.

The second case study, Park DuValle in Louisville, Kentucky, overcame tremendous challenges associated with a community that had experienced years of neglect, extreme crime and disinvestment. By assembling a large tract of land, the developer was able to create a comprehensive vision for the community and integrate design elements that offered residents a high quality product in the architectural context of the neighborhood's tradition. Achieving this required a strong marketing campaign, and willingness by the city to reevaluate its building guidelines to address the variances requested by the developer. The result has been an

enormously successful community that has restored mixed-income ownership and created a new sense of place.

The developer of the third case study project, Alban Towers in Washington, D.C., worked with community groups to address concerns regarding the restoration of this historic property and the development of a new townhouse plan for the site. Collaborating closely with the District's Historic Preservation Board, variances were negotiated to allow the developer to deliver a product that reflects the modern living standards expected of renters in this high-end market. The developer has had to contend with unforeseen restoration costs and a dated tenant law ordinance that forces the developer/owner to incur additional risks should he wish to sell the property in the future.

The forum concluded with a discussion of barriers and solutions to infill development and the next steps necessary to identify "best practice" case studies as reference material for use by interested developers and communities. Forum participants agreed that opportunities for infill development vary with geographic location, submarkets within an urban area and product type. They recommended that follow-up work focus on specific barriers and solutions related to the different sources of variation.

ULI will host a series of local forums to look at how these barriers and strategies play out in different communities. The information gleaned through these sessions will be incorporated into ULI publications on infill housing. It will also assist HUD, the U.S. Conference of Mayors and the National Association of Home Builders in their Building Homes in America Initiative – a program to build an additional one million new homes over the next 10 years in America's cities.

ULI wishes to thank the participants for taking time out of their busy schedules to discuss infill issues, identify barriers and propose solutions.

II. Participants

Chair

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III. Comments from HUD

Susan Wachter, Office of Policy Development and Research, HUD

Frank Vaccarella, Office of Intergovernmental Affairs, HUD

The U.S. Department of Housing and Urban Development (HUD) believes that infill development is a key component of national urban policy. In recent years, cities around America have begun to witness a turnaround. Both New York and Los Angeles, for example, report a recent increase in populations.. Homeownership around the country has increased dramatically and for the first time in the nation's history, homeownership has exceeded 50 percent of urban residents. This makes neighborhoods viable.

There is also an increase in public private partnerships to redevelop distressed neighborhoods in downtowns around America. However HUD feels that what is missing is a coalition of local government, federal government and the public and private sectors interests to take this further. To accomplish this, HUD has launched the One Million Homes Initiative.

A few years ago, the National Association of Home Builders (NAHB) advised the Clinton Administration that, despite significant barriers to success, opportunities for residential revitalization abounded in the nation's inner cities. Then-Secretary Coumo agreed to work with NAHB and to involve the U.S. Conference of Mayors in working toward realizing opportunities for inner-city revitalization. Together, the two groups identified ways to expedite inner-city residential development. The result was the One Million Homes Initiative to build homes in America's cities. 20 cities have been selected to serve as a catalytic model to bring together prototypes for the rest of the nation to learn from. From this group, 16 cities with dynamic mayors have been selected to develop a list of items that they are willing to undertake to redevelop their downtowns. Currently it is estimated that 250,000 homes are being built in cities each year. HUD's goal is to increase this number by 100,000 and have 1 million new homes built in cities within 10 years.

IV. Lessons Learned

Case Study I: The Parks at the Cathedral, Jacksonville, Florida

Developer: Bank of America CDC

Presenters: Mary Sorge, Bank of America

Paul Krutko, City of Jacksonville, Downtown Development Authority

Major Challenges	How Challenges Were Overcome
<p>1. Viability/marketability of project--There was little to no precedent for downtown housing in decades, particularly townhomes. This project was a completely new concept for Jacksonville.</p>	<ul style="list-style-type: none">▪ Strong community leadership and the mayor's commitment by the mayor to use this project as a catalyst to revitalize the downtown.▪ Generous financial subsidies from the city and St. John's Cathedral to help underwrite the costs of the project and lower mortgages for residents.▪ Productive partnership among the church, Bank of America CDC and the City of Jacksonville to see this project through to completion.▪ Extraordinary leadership from Downtown Development Authority.
<p>2. Resistance by building and planning offices--Building and planning offices were more familiar with suburban projects and could pose roadblocks to development due to their lack of knowledge and lack of interdepartmental cooperation.</p>	<ul style="list-style-type: none">▪ Mandate from the mayor's office to assist the developer with project implementation.▪ Designation of a point person within the city to assist developer with permitting and other needs.

Project Description

The City of Jacksonville approached Bank of America 14 months ago to provide assistance in developing a project that would encourage residents to return to the downtown district. Jacksonville's downtown had not experienced new residential development in decades and many deteriorated office buildings remained vacant after businesses and residents migrated south of town to newer suburban areas. A site located across from St. Johns Cathedral, four blocks from the St. Johns River and two blocks from central city Jacksonville was identified for the development of a 63 unit, fee-simple townhouse community called the Parks at the Cathedral. This project is not only a unique

concept for downtown Jacksonville, but the city as a whole since only two other townhome communities (both on the water) are being introduced into the market.

Bank of America CDC and the City of Jacksonville formed a Limited Liability Company with St. Johns Cathedral, which is one of the largest landowners in downtown Jacksonville. St. Johns granted the City of Jacksonville and Bank of America a parcel of land valued at \$506,000 to develop this project. The other three parcels purchased had deteriorated, boarded-up units that had been condemned by the city. The rest of the land was vacant and had a parking lot on the property.

The Parks at the Cathedral townhomes creates a new customer base for downtown; residential-owner-occupants who will add vitality to downtown and help enhance the perception of downtown as a safe and secure place to live. The first phase of the multi-phase development could create hundreds of units clustered around the historic churches east of Ocean Street to Hogan's Creek. The townhomes have been designed to convey a sense of urbanity while offering the amenities (clubhouse, pool and green space in the center) and safety expected by suburban residents.

The Downtown Development Authority and the Jacksonville Economic Development Commission (JEDC) approved the project because it responds to many of Mayor Delaney's growth management initiatives. The project is expected to bring non-tax paying property currently owned by Cathedral Foundation on the property tax rolls. It will generate \$2.5 million in new ad valorem taxes over 20 years, including approximately \$1.49 million in new tax revenues to the public school system and \$913,000 to the County.

Because the project is the first of its type, and a catalyst for future downtown development, the City of Jacksonville has put together a very generous package to help develop this project. The city is investing \$1.5 million in infrastructure improvements--right-of-way improvements, street reconstruction, decorative sidewalks, historic lighting, landscaping and pocket parks and another \$1.5 million in project-specific costs. It is also making available \$409,000 in grants to prospective. The city's contribution to hard construction costs will be collateralized by the land and is tied to construction financing.

Duval County Housing Finance Authority (DCHFA) Financing:

The DCHFA financing program offers buyers 6.85 percent financing for up to \$135,600 per unit. One to two persons are eligible for \$61,680, three or more persons can obtain up to \$71,960. Buyers with income above the DCHFA guidelines will repay 75 percent (or \$17,857 per unit) of Project Investment at closing. Buyers with income below DCHFA Income Guidelines would be eligible to receive City second mortgage up to \$17,857. The difference would be paid at closing. Ten percent of this second mortgage will be forgiven each year that the original purchaser occupies the unit.

Buyers Development Grant

All buyers will receive an annual development grant equal to 75 percent of the County ad valorem property tax increment after Homestead Exemption for 10 years. This grant is

assumable by subsequent buyers within the 10 year period. The per unit development grant is \$6,485 over the ten year period, or \$649 per year. With these financing tools in place an owner of a \$129,000 townhome in the Cathedral project would pay \$714 a month for house payment versus up to \$855 through conventional loans and non-subsidized programs.

Impact:

The first project of its type in Jacksonville, The Parks at the Cathedral townhomes has surmounted the challenge of market acceptance. Phase I met with wide acclaim and housing costs have already begun to appreciate from the \$129,500 starting price. The project would have never succeeded without the city's leadership.

Case Study II: Park DuValle, Louisville, Kentucky

Developer: The Community Builders

Presenters: Robert Robinson, Urban Design Associates
William Jones, The Community Builders

Major Challenges	How Challenges Were Overcome
<p>1. Overcoming negativity—The community had experienced years of neglect, an extremely high crime rate and disinvestment. Consumer confidence would have to be restored.</p>	<ul style="list-style-type: none">▪ Demolished all existing properties.▪ Assembled a sufficiently large tract of land to gain control over project and create a new vision for the community.▪ Conducted a series of focus groups to identify residents' core concerns of residents.▪ Developed a strong marketing program that sold the community as a comprehensive package versus a specific project. Program targeted existing and previous residents of the community.▪ Developed strong design elements that offered the residents a high quality product in the architectural context of the Olmsted tradition.
<p>2. Zoning impediments--This project introduced concepts that did not fit within the zoning code and building guidelines of the city.</p>	<ul style="list-style-type: none">▪ Sought special designation for zoning recommended by planners.▪ Educated the building department on new concepts so that officials would be familiar with innovative development.▪ Sought intervention from the mayor's office to encourage building department to issue permits in a timely manner.▪ Modified setback requirements to allow for more usable space.
<p>3. Regulatory Impediments--As a major player in this project, HUD was uncomfortable offering incentives to attract the high end residents and initially formed roadblocks.</p>	<ul style="list-style-type: none">▪ Worked with HUD officials to focus on the merit of attracting \$200,000 + buyers early in the project in order to stabilize the neighborhood.

Project Description

The Park DuValle neighborhood, once dominated by 1100 public housing units organized into two projects, is undergoing transformation into a mixed-income neighborhood on 95.6 acres. Project funds includes a \$33 million HOPE VI Grant, a \$5 million Homeownership Grant, city funds for infrastructure and community facilities, tax credit programs and private investment.

The two neighborhoods had a population that was 87.1 percent renters, 78.3 percent of residents unemployed; median income totaled \$5,269. The crime rate both within and around the two projects was the highest in the city and included a street corner notorious for its extraordinary number of murders. The adjacent, traditionally African American communities were suffering decay and abandonment.

The Revitalization Plan includes 1213 new houses with 63 percent rental and 37 percent in homeownership, in a multi-phase program. Phase II, now complete, consists of 213 units with the following mix of types of subsidy:

- 74 low income units with public housing operating subsidy serving families up to 30 percent AMI.
- 18 moderate income units with public housing operating subsidy serving families up to 30 percent AMI
- 56 low income housing tax credit units serving families between 30 percent AMI and 60 percent AMI
- 65 market or unrestricted units.

In its new configuration, a series of parks, parkways, and boulevards link a series of smaller neighborhoods with new area amenities.

The goal of the Park DuValle HOPE VI Plan is to transform derelict public housing into mixed income neighborhoods with rental and homeownership opportunities for a wide range of income groups. The greatest challenge has consisted in successfully providing public housing for needy families while simultaneously attracting middle income homebuyers to the neighborhood. Essentially, prospective buyers were being invited to invest their life savings in a house on a site with 40 years of bad newspaper headlines and then to live next to public housing residents--a gutsy move given the condition and reputation of the neighborhood at the onset of the project.

To overcome these negative realities, the urban design and architecture of Park DuValle had to be based on strategies that would instill confidence and, ultimately, create a safe, stable neighborhood. By using the images and forms identified with successful, traditional Louisville neighborhoods, the design strategies have served to reassure residents, turn their initial skepticism into support, and foster the rebirth of this area as a community in which they can take pride. Seven principles were to shape the plan:

- 1. Build a Neighborhood**

The master plan extends the boundaries of the two projects, thereby eliminating the adjacent distressed and vacant areas and connecting the sites with the adjacent neighborhood streets. The plan revises the street pattern, linking new neighborhood streets with existing ones as well as to the existing, but separated, parks, seamlessly connecting this neighborhood with the larger community.
- 2. Build on Louisville's Olmsted Tradition**

The configuration and design of streets and parks directly continues the forms established by the Olmsteds. Algonquin Parkway and Algonquin Park, both part of the Olmsted's plan, form two edges of the area. New, residentially scaled Park Ways extend from the Parkway and the Park, connecting all of the schools, as well as many of the churches, parks, recreation amenities, and public buildings in the area. The Park Ways are lined with houses; neighborhood streets connect to them forming a network of streets and public open space.
- 3. Created a Mixed-Income Pattern**

Rental and homeownership units are mixed throughout the community on a street-by-street basis. No distinction is made between subsidized and market rate rental units.
- 4. Build Good Blocks**

The streets and Park Ways are lined with closely spaced houses with front doors, porches, and large windows facing the street, thus creating a neighborhood space. The backyards are served by alleys for parking and service vehicles. A clear distinction is made between public and private areas.
- 5. Build Houses not Buildings**

To accommodate the project's mixed income program, the neighborhood features different house types: single-family units, duplexes, triplexes, rowhouses, and small apartment houses. They are all designed as "houses, not buildings." This creates the look and feel of a traditional neighborhood in which there are a variety of house sizes, only in Park DuValle, the small houses are single family homes and the large houses contain two or three dwellings. Small apartment buildings are scaled to resemble two houses.
- 6. Draw on Louisville Architecture**

The architectural character of the houses, codified in a Pattern Book, follows Louisville traditions. Four Louisville architectural styles were distilled to their essential elements and patterns. A number of architects, commissioned by either the rental developer or home builders, have designed houses with correct roof pitches, window proportions, and details. The styles have then been mixed on the sites to create a variety of addresses of different character within the community.

7. Build a Mixed Use Community

The plan calls for many of the needs of daily life to be available within walking distance. A closed school in the center of the neighborhood will be renovated and re-opened, new recreation facilities and buildings are being built in the parks, and a public safety building is being renovated. A town center is the key element of Phase III and will include a 40,000 sq. ft. Medical Center, 25,000 sq. ft. of convenience retail, and an assisted living facility with community oriented facilities.

Impact:

The development has far exceeded the community and city's expectations. The apartments are renting faster than they can be built. The first 50 lots designated for homeownership units sold a year ahead of schedule and there is a waiting list of 250 for the next phase. Prices for these houses range from \$85,000 (with various grants to lower first mortgage for lower income families) to \$250,000. These are immediately adjacent to rental houses that have a high percentage of low and very low-income families.

Case Study III: Alban Towers, Washington, DC

Developer: The Charles E. Smith Companies

Presenters: Alfred Neely, Charles E. Smith
James Kane, Charles E. Smith

Major Challenges

1. **Community opposition**--Project met with opposition from neighbors with proprietary interests in the restoration of the building and its grounds
2. **Lack of predictability in market and District government** --Prior to three years ago, the developer did not feel comfortable risking its capital to restore building due to market conditions and a non-responsive local government.
3. **Historic preservation guidelines pose restrictions and risk**—Historic Preservation Guidelines do not always balance modern building systems with historic preservation goals. In addition, guidelines do not insure against unforeseen costs associated with restoration.
4. **Restrictive rental ordinance**--Current Washington, D.C. law requires owner of rental building to offer occupants the right to own their properties prior to selling building to another institutional owner. This process is much too risky for institutional investors and should be

How Challenges Were Overcome

- The developer met with community groups early in the project and throughout its restoration to understand their neighbors concerns and engage them in project planning. For example, a butterfly garden will be developed on the project as a result of concerns stated by the Butterfly Society of Washington. A newsletter has been developed to update residents as the project progresses.
- The District's real estate market in the last three years has allowed this project to move forward with the expectation of capturing the highest rents in the market.
- The District's new administration is responsive to the developer's concerns and has made this project a priority. The Historic Preservation Society also has seen the value of restoring the property and, as such, has been highly responsive.
- The developer established a good relationship with the Historic Preservation Board and managed to compromise on egress and ingress guidelines among other issues.
- The developer decided to maintain a long-term stake in this project.

revised.

5. **Threat of gentrification**—One barrier to market for high end products is concerns by local communities of gentrification.
 - The developer engaged the community in project planning. In the case of too much opposition, some developers simply seek another site.

 6. **Parking ratio**—F high- end product to be viable, it has to provide secure parking for its residents. Space and zoning restrictions made this difficult.
 - The developer attained necessary parking ratios through negotiations and the proposed development of 15 new townhomes above a parking structure on the site.
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Project Description:

Charles E. Smith acting through a wholly owned subsidiary, is the managing member of Alban Towers LLC, and has begun to rehabilitate Alban Towers, a six-story, concrete and masonry apartment building in upper northwest Washington, DC. After their historic renovation, the building will contain 226 units with garage parking for approximately 40 cars. Additionally, Smith plans to construct a 270-car underground parking garage, for tenant use, on the property adjacent to Alban Towers. Smith also intends to sell up to 15 semi-detached housing lots located on the top of the garage.

Alban Towers was constructed in two phases in 1928 and 1929 and is designated a Historic Landmark by the Historic Preservation Review Board of the District of Columbia. This designation requires that the buildings facade, lobby, and interior hallways be preserved. Extensive demolition work on the building had been completed, so that only the exterior walls, building floors, interior hallway walls, roof, and building windows remained prior to Smith's involvement.

The property is located directly across the street from the National Cathedral at the intersection of Massachusetts and Wisconsin Avenues. The site encompasses an entire city block (2.88 acres) and is bounded by Massachusetts and Wisconsin Avenues, both major thoroughfares that provide easy access to other parts of the District, Maryland and Virginia. The site is serviced by bus and metro.

The Wisconsin Avenue sub-market contains a wide mix of multifamily product. Relatively few new multifamily units have been built during the last ten years due to high market barriers to entry including limited site availability, neighborhood opposition and high development costs. Approximately 6,100 units exist in the submarket. The competitive rental units surveyed totaled 894 units with an occupancy rate of 99.3 percent as of May 1999.

The cost to produce each unit is \$285,000. Historic Preservation tax credit and townhouses to be sold to a sale builder bring down the price to \$250,000 to \$255,000 including parking. As a result, Smith will have to get rents of approximately \$2.40 per square foot. At this price, the renter has a lot of options. Details and amenities will be the selling point. The return will be less than 10 percent.

Because of limited site availability, Smith is turning to historic preservation and adaptive reuse.

Impact:

Smith has completed 40 percent of the restoration of the exterior facade.

V. Discussion of Barriers

Planning and Regulatory Issues

Topic Leader: Chris Shea, Pittsburgh Housing Authority

Key Recommendations:

1. Cities with antiquated zoning codes that discourage higher density, mixed-use urban development should consider revamping their code to allow for smart growth type projects.
2. Policies should promote income gradations to help stabilize neighborhoods. Changes in income limits specified in the last housing act have significantly reduced the pool of individuals who can now become homeowners. Reduced level 100 to 115 percent of median income down to 80 percent.
3. To accomplish effective change, the mayor's office must establish a policy context that favors change and that trickles down to other city departments.
4. To limit unnecessary lost time, cities should try to anticipate the review process and start in advance.
5. Cities should develop design guidelines that foster the creation of neighborhoods that meet a community's needs and aesthetic qualities.

Discussion:

In Pittsburgh, the administration had been laboring under a 1958 zoning code that envisioned a suburban model for the city. The overly rigid code was unreasonable with respect to traditional issues of density and setbacks. The worked against higher-density and, possibly, more flexible development that is geared to urban areas under the principles of the new urbanism, smart growth, and so forth. Over the past two years, the mayor of Pittsburgh spearheaded an effort to revamp the city's zoning code to encourage urban development that reflects smart growth concepts.

To accomplish effective change, the mayor must establish a policy context that favors process and project outcomes. In addition that policy context must trickle down to other city departments. In Pittsburgh, the mayor voluntarily named himself chair of the board of the housing authority because that body had a track record of poor performance. A leadership team from the mayor's office and on down the administrative structure now focuses on getting things done within the context of reinvesting in distressed urban neighborhoods. It is critical to have a point of contact in the city to expedite project completion.

On the regulatory side, cities must deal with time-consuming NEPA 106 reviews. Pittsburgh officials, however, feel that the reviews force the city to think and plan deliberately. To limit unnecessary lost time, cities should try to anticipate the review process and initiate it in advance.

Design guidelines are essential for creating neighborhoods that meet a community's needs and aesthetics standards. Pittsburgh spends extra money to ensure that such needs and standards are addressed.

Community Issues

Topic Leader: Hattie Dorsey, Atlanta Neighborhood Development Corporation

Key Recommendations:

1. Enact policies that protect the interests of individuals who have been long-time residents of neighborhoods that are experiencing both gentrification and an increase in property values.
2. Developers should spend a little time assessing community needs and concerns before diving into a project. Time well spent on research may save money down the road.
3. Build long-term affordability into projects.
4. Establish the political and bureaucratic will to streamline the municipal development process so that opportunities are not lost and money is not squandered.
5. Modify regulatory process to allow the dissemination of development grant money in a more expedient manner. Granted dollars (CDBG grant funds, HOME money) are tied up in the administrative process for too long and are not released in time to make a financial difference. The process once it has been approved by the city (one year to one and one-half years) takes too long to move on. It can kill a project and get rid of the affordability of the project. And because CDBG law says that you can not be reimbursed, so opportunities are lost.
6. Change financial institutions mind about investing in central city areas.

Discussion:

Gentrification is beginning to take place in many central cities. As a result, many long-time residents find themselves facing displacement in response to rising property values. It is important for the public and private sectors to form partnerships to ensure the development of mixed-income neighborhoods.

Design Issues

Topic Leader: Cy Paumier, LDR International

Key Recommendations:

1. Create a public realm that helps people envision a site's potential and inspire good community development.
2. Celebrate good urban models rather than always focussing on negative aspects of developing in urban areas.
3. Establish public commitment to see vision of a project through completion.

Discussion:

There are many people involved in the revitalization of neighborhoods. Understanding each point of view is critical in developing a vision for neighborhoods. The public realm is critical in creating an environment within which private investment can occur. It is important to create an environment for development. Creating open space, attractive streetscapes and infrastructure improvements can set the stage for building a sense of place and can create an interest by investors. Looking at infill parcels as part of a whole is very important.

In projects in Baltimore and Kanosha, Wisconsin where the city committed to making infrastructure investments communities arose within a short period of time and neighborhoods were created. It is important for cities to define what they want to do and to adhere to the "vision" created for the project or neighborhood, but also appreciate the opportunities for housing development in cities like St. Petersburg. Within six months after a study was completed in that city, parcels had been open for years, developers began to flock in. Once the city shows the commitment and leadership to see a project through, there is generally a positive response from the development community.

Land Acquisition and Assembly Issues

Topic Leader: Terry Eakin, Eakin/Youngentob Associates

Key Recommendations:

1. Developers need to understand their strengths and focus on what they do best.
2. Developers need to demonstrate the entrepreneurial courage to resolve problems that will inherently arise in infill projects.
3. Public policy should be more open to alternative uses for sites that could accommodate residential product.

Discussion:

Eakin/Youngentob operates in a market noted for a shortage of land for the type of product (market-rate housing up to \$2 million) developed by the firm. As a result, Eakin/Youngentob has developed expertise in resolving problems associated with urban residential sites. The company pioneered higher-density residential developments (up to 30 units per acre) that yield greater profits.

Critical mass is important if a project is to produce an impact on a neighborhood.

Alternative uses should be more widely considered. Public policy needs to reduce the expectations for higher use. A number of properties bought were destined to be commercial properties that were redeveloped to house residential. A project in Old Town now lies on the site of an old Ford plant.

Environmental problems are prominent in infill sites. Need the financial resources and creative thinking to overcome these problems.

Market Issues

Topic Leader: Charles Hewlitt, Robert Charles Lesser and Co.

Key Recommendations:

1. When comparables do not exist for a high-end infill project, find analogous relationships between one market and another.
2. Do not diverge from the fundamentals of supply and demand.

3. In lower-income infill projects, the issues are more complex, but public investment in amenities are essential to the projects success.

Discussion:

The last five to seven years have seen a fundamental shift toward downtown development and urban mixed-use living. RCL believes that several demographic factors--from the babyboomers who are tired of suburban living to the Gen Xers looking for an urban experience. It is a reaction to increased traffic in major metro areas.

One of the challenges of infill development is that it needs to be done in the context of a mixed use development and with the securitization of the real estate industry, specialists have been created that know how to do housing, or retail, or highrise etc.. But there are very few developers that know how to do mixed use, particular on infill sites, well. Therefor, partnerships must be created to address these projects and that increases the complexity and the risk.

There is a wide variety of housing markets from the very high end to the emerging.

At the high end of the market, the market itself often is not the issue if you can get through the entitlement, assemble the site and convince the lender that it is a viable project. Issues always exist. But in the absence of true comparable evidence, which is often the case with infill development, how do you demonstrate, beyond a reasonable doubt, that there is a market in these locations? Often there is a leap of faith or a gap that a developer needs to make. How do you marshal evidence to support what is oftentimes a developers gut instinct?

Market analysts will take a disciplined approach to analyzing location, product, and age premiums. RCL will often times look at a triangulation of factors. While a highrise may have not been built in this particular submarket in X amount of years, a similar project has gone up in a comparable submarket across the river. They will see what that new highrise can achieve in terms of premiums vs. an old highrise. What premiums may exist between garden apartments in a highrise? What is this analogous relationship of a product between one market and another. Extrapolate that experience for your own project. Another way is to analyze case studies of analogous situations elsewhere in the country.

It is also important not to diverge from the fundamentals of supply and demand. What is the pool of your market? Where are these people going to come from, how many are there, what is their age, income and tenure qualifications. Then, determine how much you can expect to draw from that pool--5 percent? 10 percent? To figure this out, begin at least with your fair share. If there are x number of projects in the area targeting a certain population, you can expect to capture a certain percentage. Learn from the experience of other projects and what they have been able to achieve in terms of market

penetration? From there, you will need to decide what amenities your project is offering to capture higher rates.

At the lower end of the market the sheer depth of the market is the issue, along with the crime rate, the quality of public education, and the mix of incoming, etc. In addition, it is important that the product be introduced within the context of the existing neighborhood. Oftentimes, this prices out the project as it becomes too expensive to build, say, brick townhomes in East Capital DC at what the market will pay. So in this case, developers need to fill the gap with subsidies. In these cases, simply assembling sites and gaining approvals does not guarantee success. Often, with these developments, public investment in amenities (bringing in a grocery store) need to go hand in hand with proposed housing to work.

While infill housing is easier to produce and sell in downtowns with significant employment, entertainment, open space and other features of urban living are strong attractions for downtown living.

Financing Issues

Topic Leader: Kevin McCormack, McCormack Baron & Associates

Key Recommendations:

1. Understand the cost differential in the community slated for development to determine the availability of project financing.
2. Support policy changes at the federal level to ensure that programs such as HOPE VI do not create incentives that exacerbate poverty by offering higher subsidies for greater concentrations of lower-income families.

Discussion:

Just because a project is termed market-rate does not mean it is financially feasible. It is important to understand cost differentials. In San Francisco, for example, the cost of producing housing is high but so are rents. In Ft. Worth, the cost of producing housing is low and rents are also low. In Pittsburgh and St. Louis, the relatively high cost of producing housing is no match for relatively low rents. In these cases, subsidies are required to fill the gap. It is important to use the Davis-Bacon wage determination to understand where you're a community lies.

The simplest and most straightforward way of dealing with the financing gap is through real estate taxes, either by creating a tax increment finance district or a real estate tax abatement. Another way is a straight right down of the value of the land. Rental subsidies or tax incentives, tax credits are also alternatives.

The overarching issue with today's finance structure is that (leaving aside HOPE VI and public housing replacement) the powerful tools are specifically targeted at households at or below 60 percent of the area median income. A project in a low-income census tract that relies on tax credits can account for 30 percent more tax credits than otherwise permitted. The result is an even lower-income project than intended at the outset.

VI. Next Steps

The ULI forum presented an opportunity to learn about the nature of the challenges associated with infill housing development in distinct geographic locations and within different markets. The recommended next step would be to categorize the different types of infill based on size/type of cities and markets, and identify "best practices" within each of these categories and have more focused discussions to address these issues.

Perhaps a viable follow up exercise would be to develop a matrix like the one below, to help identify best practices for infill development within the distinct categories.

Essential Elements for Successful Infill Housing Development	First Tier Cities		Second Tier Cities		Third Tier Cities	
	High End Market-Rate	Middle-Low-End Market Rate	High End Market Rate	Middle-Low-End Market Rate	High End Market-Rate	Middle-Low-End Market Rate
Community Leadership						
Vision for Community						
Availability of Sites						
Fast Track Permitting/Removal of Red Tape						
Community Engagement						
Developer Interest						
Availability of Traditional and Gap Financing						
Reasonable Environmental and Preservation Policies						
Viable Public Realms with Specific Design Elements						
Availability of Market						
Definition of Public Partnerships						
Elimination of Discrimination						

