

Schools: An Added Asset

High-quality American school communities could become the ultimate real estate amenity.

FEW DISCUSSIONS AMONG business leaders end without lamenting the condition of America's school systems. Resulting from controversial legislation like the No Child Left Behind Act, books like Thomas Friedman's *The World is Flat*, and policy papers like "Tough Choices or Tough Times: The Report of the New Commission

and ten years later have not one new employee to justify the investment. There is an element of *noblesse oblige* to the whole exercise.

A related problem is that school reform efforts basically try to retrofit existing school systems to make them more functional. Though essential, these efforts have proven to be

What are good schools worth to a developer? A major national study commissioned in 2004 by the KnowledgeWorks Foundation, *Public Schools and Economic Development*, concluded: "[P]ublic schools indisputably influence real estate values." There are numerous rigorous economic studies around the country that offer similar findings, though the absolute increase in market value varies considerably from place to place.

Given that the United States is widely perceived as falling behind in generating educated students able to compete in the global marketplace, and given the increasing anxiety of parents about the need for their children to become competitive by attending four-year colleges and beyond, good public schools could become the ultimate amenity for master-planned developments. Unlike golf courses, there is no foreseeable time when good schools will be in sufficient numbers to satisfy the public demand.

In order to make high-quality education-focused communities happen, the planning needs to become a core competency of large developers—for both marketing and sales reasons—as well as for the overall public good.

Consider a hypothetical 4,000-acre (1,619-ha) new urbanist development adjacent to a major city. Over a 20- to 30-year period, it could grow to more than 30,000 residents. Depending on the demographic composition of families, the final buildout could result in a population of 7,500 or more public school students, and the cost of school facilities could easily exceed \$250 million.

Today, most developers tend to engage in "magical thinking" when



Forest City provided land and funding for construction of a "boutique" charter high school, the Denver School of Science and Technology, as part of the Stapleton redevelopment project outside Denver.

on the Skills of the American Workforce" by the National Center on Education and Economy, there is a general consensus that America's educational system is dangerously dysfunctional and getting worse.

The private sector is constantly being urged to "get involved" in education reform. The rhetoric about increasing this involvement is based on the idea that human capital is the country's most vital economic asset, and that, to the degree we fail as a country to develop our intellectual capacity, in the long run, we face inevitable economic decline.

All too true, but it raises the economic problem of the commons: Individual companies that invest in long-term public education reform cannot directly quantify the benefits. A company could invest \$100 million to help improve urban public schools

difficult, discouraging, and slow. The advent of the cellphone allowed third-world countries to bypass the need for land lines and essentially to leapfrog over the telecommunications infrastructure. But in the United States, few reformers are looking for ways to leapfrog over the existing education system and create new, more effective models.

So the question is: Where can one find business models in which an investment in high-quality public education can hurdle over the system—and yield direct, immediate, and measurable economic benefit to the corporate investor? The answer lies in the real estate industry.

Public education is uniquely relevant to developers. If developers are able to provide consumers with high-quality public schools, they can quantify the increase in housing sales and values.



DAVID ETHAN GREENBERG, founder of the Denver School of Science and Technology, served ten years on the Colorado Commission on Higher Education, and is currently the CEO of New Schools Development Corp.

it comes to public education. Under normal circumstances, the developer conveys land and essentially turns over all responsibility for constructing and operating the facility to the local district. What the developer often fails to recognize is that these facilities ultimately (if indirectly) are going to be paid for by some combination of development fees, residential property taxes, commercial sales taxes, and state funding derived, probably disproportionately, from the income of the residents of the development. So, the developer and the community that is created have a major financial stake in the school system.

Moreover, the interests of school districts and developers are often not aligned. Developers operate on the “build it and they will come” principle, which requires the construction of educational facilities before the student population is large enough to support them. School districts, particularly in urban areas, tend to be underfunded, with aging physical plants that necessitate infusions of capital. The districts often are unable or unwilling to give the developers what they need when they need it. In worst-case scenarios, districts will use the tax revenues generated by a new development to fund construction of schools at competing developments that have already demonstrated student demand.

There is ample precedent for the creation of individual “signature” schools within a development, usually either autonomous charters or demonstration schools designed in tandem with the local school district. They become a focal point of the developer’s marketing campaign—and they can sell a lot of homes.

Today, some of the most sophisticated master developers are thinking in terms of creating model school *communities*—not just individual schools, but entire preschool and K–12 systems built on state-of-the-art academic design principles. They may be “best practices” schools within existing districts,

“districts within districts,” charter districts, independent districts, or whatever works, given the political and regulatory framework of the state and the local community.

Although variations of this trend are taking place around the country, Colorado has several different projects going on simultaneously in the Denver metropolitan area. Among them:

▷ Stapleton, which is located within the boundaries of Denver Public Schools, was able to develop its own academic programs and facilities after Forest City negotiated a series of agreements with the school district that allowed the development of the Westerley Creek campus, one of the few public school buildings specifically designed to house both a charter K–8 school and a district elementary school sharing the same facilities. Forest City also provided land and funding for construction of a “boutique” charter high school, the Denver School of Science and Technology, designed to be a national model for teaching science and math in an urban district setting.

▷ Lend Lease, the American subsidiary of the Australian development company, is in the early stages of devising an education strategy for the 40,000-acre Lowry Bombing Range project southeast of Denver International Airport. Bidders responding to the RFP (request for proposals), administered by the Colorado State Land Board, were required to submit a comprehensive approach to the development of a life-long learning community. This is one of the first times a public entity has required a developer to articulate an educational vision for a privately funded development.

▷ The E-470 education master plan may be the most ambitious and controversial project. It is an attempt by a coalition of homebuilders to work with the local school district and business community to create a comprehensive plan for a corridor that, according to projections, will have 50,000 homes and a population of 150,000 at full buildout. The

various projects are located within the Aurora Public School district, which at present lacks the financial capacity and political base to fund construction of the estimated 22 public schools that will be needed to serve this market. Some developers are advocating the creation of a charter district, similar to what is being attempted by the state-operated Recovery School District in New Orleans, rather than relying on the district to find a funding solution.

Most developers who want to promote high-quality learning communities recognize that they lack a core competency in education and are not inclined to assume responsibility for providing educational services. However, they are beginning to identify some “best practices” in how to approach the problem. Some key lessons learned to date include the following:

▷ **Commission a master education facilities study.** School district facility plans almost always ignore, or dramatically understate, the population growth generated by new developments. As a result, the construction of facilities lags years behind the actual demand. Developers need to be armed with their own growth projections in order to convince districts to change construction priorities to meet the needs of new residents.

▷ **Negotiate school facilities funding at the front end.** Developers have had success in creating special districts or authorities within a school district that allow them to fund school construction internally in anticipation of demand. Some are advocating the creation of independent districts; they could then capture the tax revenues generated by the development in order to fund school construction and have local residents run the school district. If these issues are not negotiated early on, it becomes almost politically impossible to change course later.

▷ **Create an independent entity to advocate for school quality.** Sophis-

ticated developers are creating and funding nonprofit foundations, such as the Stapleton Foundation and the Foundation for Educational Excellence, to assume responsibility for ensuring that publicly funded schools are providing high-quality instruction. These foundations, often funded by development or transfer fees, bring in educational experts to help keep school district leaders current on “best practices,” to provide supplemental programs for schools, to underwrite design competitions for new school facilities, to pay for recruiting school leaders, to help in grant writing, and to take advantage of other opportunities as they come along.

Perhaps the most important lesson to date is that there *are* no experts. While there is an endless supply of studies and research on how to improve dysfunctional school districts, there has yet to be a national debate over what the ideal school system of the 21st century should look like and how it should operate.

In the next 25 years, according to the U.S. Census, the American population will grow by 100 million. Many of these people will be living in new, large master-planned communities. Because developers are essentially creating school communities from scratch, they are going to find themselves on the “bleeding edge” of the national dialogue on education reform.

As access to high-quality education becomes increasingly valued by families interested in purchasing homes, a tipping point eventually will be reached in which any large developer will be expected by parents to have a “master-planned” educational strategy. The upside potential for all involved—developers, homebuilders, and, most especially, students—should prove to be considerable. **U**

(See “Education and the Physical Environment,” March, page 16.)