The Value of ‘Vibrant Centers’

In the 12 years that I have been writing this column, I have never reviewed an article from a real estate journal. That realization came as a surprise to me because I’ve always said that real estate development is the only profession with as much impact on the built environment as urban planning.

Since my May 2017 column “Planning for Polycentric Regional Development,” in which I bemoaned the lack of good empirical research on the value of regional, city, and town centers, I have become aware of high-quality research on that topic published in—you guessed it—real estate journals.

Emil Malizia, FAICP, is a professor of planning at UNC Chapel Hill, one of the top planning schools in North America. He is also a member of the Urban Land Institute and the American Real Estate Society. His research has quantified the value of centers from a real estate perspective, as well as reminded me of the value in planners, as a profession, becoming more knowledgeable about real estate development research to inform our own work.

Office space development

In Malizia’s first study, Preferred Office Locations: Comparing Location Preferences and Performance of Office Space in CBDs, Suburban Vibrant Centers and Suburban Areas (tinyurl.com/jvkbdc), published in 2014 by NAIOP, a commercial real estate association, Malizia reviews the comparative performance of office space in what he calls “vibrant centers” (defined as amenity-rich, mixed use, “live, work, play” locations) compared to typical single-use suburban areas.

Forty-two vibrant suburban centers were identified across the U.S. by local area experts. Comparisons were made using a real estate survey, collected by Malizia himself, and rental data that came from the CoStar Group’s “University” program, which provides access to their database for research purposes at no cost.

The study demonstrated that office properties in vibrant, compact, mixed use suburban centers outperform typical single-use suburban office space on nearly all metrics. Office tenants would rather locate in vibrant suburban centers than in typical single-use suburban office locations by a ratio of about 5:1. Indeed, the study found that many office tenants actually prefer vibrant suburban centers to central business districts, though it’s worth noting that this tends to be truer in cities with weak CBDs (e.g., Dallas–Fort Worth) than in cities with strong ones (e.g., Boston).

In a follow-up study, “Vibrant Center Performance for the Past Ten Years,” published in 2016 in Real Estate Review, Malizia compared office space in 42 vibrant suburban centers to space in typical auto-oriented suburban submarkets or office parks. After the Great Recession, from 2010 to 2015, the average asking rents were $3.52 per square foot higher in vibrant suburban centers than comparable single-use suburban areas—a difference that is statistically significant in a t-test at the one percent level or beyond.

Office rents in CityPlace, a walkable mixed use center in West Palm Beach, Florida, average nearly $11 more per square foot than nearby auto-oriented Worthington Road.
ground, a t-test compares the average value of something such as office rent per square foot for two samples—in this case vibrant centers and suburban office parks—and tells us whether the difference is likely to be real or by chance due to sampling variability. For office rents, this means that there is less than one chance in 100 that a rent difference as large as $3.52 is due to chance.

Further, for the 2010 to 2015 period, average vacancy rates were 3.8 percent lower in the vibrant suburban centers compared to their comps, also significant at the one percent level or beyond. Again vibrant suburban centers outperform suburban sprawl.

For example, in the Washington, D.C., metro area, office rents in transit-oriented Ballston, a compact, mixed use center on the Metrorail Orange Line in Arlington, Virginia, averaged $41.90 versus $30.67 in auto-oriented Tysons Corner. Likewise, office rents in pedestrian-oriented CityPlace, Florida, averaged $34.89 compared to $24.08 at nearby auto-oriented Worthington Road. CityPlace, in West Palm Beach, is my favorite lifestyle center. It combines offices with shops and restaurants, rental apartments, and condos.

A quick aside: In addition to having never reviewed an article from a real estate journal (until now), this month’s column ushers in another first in my history of writing for Planning. I have never profiled a study that uses a simple t-test to see if two samples are the same or different.

Other than a chi-square test, a t-test may be the simplest form of inferential statistics. Yet this technique is powerful, easily understood, and easily learned. It proves the maxim that the right statistical method is determined by the data itself, not by a need to impress the reader (or reviewer) with ever more sophisticated statistical techniques.

All about the D variables
As if all of this weren’t enough, Malizia has gone on to study CBDs (which, as noted previously, may be strong or weak). With coauthor Hugh Kelly of Fordham University, he has compared office rents in what they refer to as 24-hour, 18-hour, and 9-to-5 cities. Their results were published in “The Influence of 24-Hour Cities and Vibrant Centers on the Value of Office Properties and Apartments in Large US Markets,” Real Estate Finance (Winter 2016). Using the D variables I have written about repeatedly in this column (density, diversity, design, etc.), they computed a vibrancy index for downtowns. New York, Chicago, San Francisco, and Philadelphia are the most vibrant of the 42 CBDs in their sample. Las Vegas, Nashville, Phoenix, and Orlando are the least.

Then, using ordinary least squares regression analysis with control variables, they modeled office rents and found that vibrancy is the most significant predictor of office rents per square foot. This fact provides operational guidance to planners who want a strong downtown office market. As I frequently tell my students, it all comes down to five D variables. If you want a strong downtown, increase development density, land-use diversity, pedestrian-oriented design, and destination accessibility, and reduce distance to high-quality transit.

My May 2017 column on polycentric development ended with the observation that “compact development generally outperforms sprawl in terms of everything from air quality to traffic safety to upward social and economic mobility.” From Malizia’s research, I think we can now add economic vibrancy, reflected in higher office rents and lower vacancy rates, to that list.

LETTERS

Not so fast
The April 2017 Planning magazine article about driverless vehicles, “Here Come the Robot Cars” and its impact on the built environment and our habits is interesting but I do not believe it is objective enough. Self-driven vehicles will have great impacts on our land uses, transportation routes, etc., but there are impacts that are either minimized or omitted from the article.

I like the article in the May edition of Florida Trend magazine which pointed out the most obvious question about this up and coming technology: How much will human error impact the technology?

Every machine, computer, and other technology created by humans has human error built into it and the driverless vehicle will not be exempt from this casualty of human nature. Remember that at the turn of the century, the horseless vehicles were also predicted to be the savior to the urban problems of what to do with increasing horse manure and horse corpses, so let’s not oversimplify the issues of changing our infrastructure and land uses, because behavior and culture also play a part of our built environment.

—Christy Fischer
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When the ‘creative class’ is not enough
Richard Florida (University of Toronto) has rethought his 2002 blockbuster The Rise of the Creative Class and found himself “confronting the dark side of the urban revival I had once championed and celebrated.” In The New Urban Crisis: How Our Cities Are Increasing Inequality, Deepening Segregation, and Failing the Middle Class—and What We Can Do About It, Florida spends nine chapters analyzing the new crisis of inequality within and