CONVENTIONAL SUBURBS ARE OVERBUILT *and out of favor. In cities and suburbs alike, walkable neighborhoods linked by train are the future. Here's how a new network of privately funded rail lines can make that future come to pass more quickly and cheaply—and help reinvigorate housing and the economy.*

By CHRISTOPHER B. LEINBERGER

WHILE HOUSES ARE (mostly) sturdy, the construction industry is as sensitive as a 19th-century debutante. At the first sign of trouble, it swoons, often knocking the economy down with it. In each of the three recessions before the Great Recession, the economy shrank by less than 2 percent—but housing starts, on average, declined by a third. In the years leading up to the 1990 recession, when real estate bankrupted about half of the savings-and-loans, housing starts fell 44 percent. Usually, an economic recession means a *depression* in the housing industry.

It's been worse this time around. From their pre-recession peaks, economic output fell 3.3 percent and employment 6.1 percent, but housing starts dropped 73 percent. Last year housing starts were lower *by half* than in any year since 1959, when the U.S. population stood at 178 million (compared with 309 million today). About a third of all the jobs lost in this recession have been in construction, real-estate finance, architecture, or building services. Housing prices, meanwhile, have fallen 28 percent, adjusted for inflation, since their peak in 2006—that's far more than they fell during the Great Depression.

But housing hasn't cratered everywhere. According to Stan Humphries, the chief economist of Zillow, an online housing-research firm, if you plot changes in home values within a typical metro region on a satellite map, the result "looks like an archery target, with the outlying areas having experienced substantially higher total declines in home values" than areas closer to the central city.

Zillow data for metropolitan Washington, D.C., for instance, shows that housing prices on average have declined 33 percent since the peak. But this average masks big differences. In densely built inner suburbs, like Arlington, Virginia, and in the walkable, urban neighborhoods of the District of Columbia, prices typically dropped about 20 percent. Housing on the suburban fringe, on the other hand, lost about half its value. Many exurban homeowners

who had purchased or refinanced in the mid-2000s are now well underwater.

Housing is such a large part of the economy that a sustained, robust recovery is difficult to imagine without a corresponding recovery in the building, buying, and selling of houses. Indeed, housing has usually helped lead us out of prior recessions. While home buying typically plunges when the economy turns south, life goes on. People continue to age, children leave the nest, couples marry, babies are born, new jobs are taken. When consumer confidence returns, the pent-up demand for different housing choices sparks a boom in construction and renovation. The economic expansion during the 1990s, for instance, was fueled in part by a 44 percent rise in housing starts from 1991 to 1994, providing substantial job growth early in the recovery.

But this time may be different. As Zillow's satellite maps begin to indicate, what we face today is not just a *cyclical* housing problem, but a *structural* one as well. Over the past decade, most house building occurred on the suburban fringe, in large part because that's where houses could be built most easily and quickly. But now that the bubble has popped, we can clearly see that underlying demand in these areas is extremely weak, and oversupply is massive.

Nationwide, houses on the exurban fringes are now generally priced below the cost of the materials that went into building them. That's usually the first step in the creation of a slum. Owners have no financial incentive to invest in their houses if they will not get that investment back upon resale. Developers have no financial incentive to build in those areas either.

FUTURE OF THE CITY

Urban-style housing in walkable neighborhoods—including those in the inner suburbs—is what's in demand today. And for a variety of reasons, that demand will intensify in the coming years. Only by serving it can the country kick-start growth in an enormous and essential part of the economy.

Yet the creation of new, attractive urban spaces is slow and difficult, and becomes all but impossible without substantial new infrastructure. Most of all, it relies on good transit options—especially rail links—around which walkable neighborhoods can develop. Rail, biking, and walking infrastructure is the backbone of urban development, and as a country we've for the most part neglected to build it in recent decades, in

favor of new roads for new suburbs farther and farther away from metropolitan hubs. To support growth in the next decade, we need to change that dynamic—and nourish our walkable urban spaces and neighborhoods. Complicating matters, in these cash-strapped times we need to find a way to do so on the cheap.

HOUSING COMES IN TWO basic types. The first is the now-classic *Ozzie and Harriet*–style single-family house on its own large lot, from which nearly every trip is taken by car. The second is similar to what we predominantly built before the Great Depression: small-lot single-family houses, townhouses, and apartments that are within walking distance of most everyday needs and are typically connected by public transit to work, shopping, and entertainment—housing that is built at least five times more densely than that in conventional suburbs.

Ten years ago, conventional large-lot housing in wealthy suburbs was the highest-priced housing, per square foot, in nearly all metropolitan areas. Today, housing in walkable neighborhoods is typically the most expensive; the lines crossed in the 2000s.

Why did this happen? Cities, of course, have experienced a cultural renaissance over the past 15 years. Some suburbs, meanwhile, have become less attractive as they've grown more congested and lost open space, betraying suburbia's original promise and pushing new subdivisions farther and farther out into the hinterland.

The increasing costs of driving, meanwhile, have put great pressure on suburban family finances. On average, traditional suburban households spend 24 percent of their income paying for and maintaining their cars; urban households in walkable neighborhoods spend only 12 percent of their income on transportation. The difference amounts to half of what a typical household spends on health care—nationally, $700 billion a year in total.

Two-thirds of all households today consist of singles, childless couples, or empty-nesters, and that proportion will rise over the next 20 years. All of these groups tend to prefer walkable urban housing. Millennials—the rising generation of 20- and 30-somethings—are particularly drawn to urban living, seeing it not only as exciting but as healthy and environmentally friendly.

Americans are not about to abandon conventional suburbs en masse; many prefer them. But demand for walkable urban living is rising, and today supply of that sort of housing is limited. As for conventional suburban housing, the reverse is true. In a 2006 article in the *Journal of the American Planning Association*, Arthur Nelson of the University of Utah estimated that, based on current supply and shifting demand, the nation may have a surplus of some 22 million large-lot single-family houses by 2025.

Some national home builders are still betting on conventional suburbs. Once the economy picks up, they're planning to build more McMansions on the fringe, just faster and cheaper than ever before. With the price of existing fringe housing so low, they are hoping to offer competitive pricing by limiting the number of models, simplifying their plans, reducing house sizes, using more vinyl, relying more on factory construction, and shipping prefab housing parts in on a flatbed, so they can assemble some houses in a week. But this strategy may not have much further to go; the difference between site-built houses and mobile homes is narrowing.

"It is very unlikely that new projects in sprawl areas will be financed," says Jonathan Rose, the CEO of the national development-and-investment firm Jonathan Rose Companies, based in New York City. "Urban areas with diverse transit options and thriving universities are the choice of Baby Boomers and young people." Mark Falcone, the CEO and founder of the Denver-based firm Continuum Partners, which has experience redeveloping downtowns and dead malls, sounds much the same note: "It is clear that the primary development demand will come from closer-in locations over the next several years," he told me.

Urban spaces of the kind that people want today feature mixed-use zoning and lots of stores and parks within walking distance. But most of all, they feature good public-transit options—usually rail lines.

Metropolitan voters in recent years have passed roughly two-thirds of all ballot measures calling for tax increases to pay for new or expanded transit. But asking cities and suburban towns, which are now strapped for cash, to shoulder the entire burden of rail-transit investment is not realistic. And in a variety of ways, federal funds have typically privileged road building over public transit. Progress will be slow unless something changes.

This problem has a solution, one that could be borrowed from U.S. history, and that might help our economy get up more quickly off its knees: What if developers and property owners build the transportation infrastructure themselves?

IN THE EARLY 20th century, every town of more than 5,000 people was served by streetcars, even though real household income was one-third what it is today. By 1920, metropolitan Los Angeles had the longest street-railway network in the world. Atlanta's rail system was accessible to nearly all residents. Until 1950, our grandparents and great-grandparents did not need a car to get around, since they could rely upon various forms of rail transit. A hundred years ago, the average household spent only 5 percent of its income on transportation.

How did the country afford that extensive rail system? Real-estate developers, sometimes aided by electric utilities, not only built the systems but paid rent to the cities for the rights-of-way.

These developers included Henry Huntington, who built the Pacific Electric in Los Angeles; Minnesota's Thomas Lowry, who built Twin City Rapid Transit; and Senator Francis Newlands from Nevada, who built Washington, D.C.'s Rock Creek Railway up Connecticut Avenue from Dupont Circle in the 1890s. When Newlands got into the rail-transit business, he wasn't drawn by the profit potential of streetcars. He was a real-estate developer, and he owned 1,700 acres between Dupont Circle and suburban Chevy Chase in Maryland, land served by his streetcar line. The Rock Creek Railway did not make any money, but it was essential to attracting buyers to Newlands's housing developments. In essence, Newlands subsidized the railway with the profits from

his land development. He and other developers of the time understood that *transportation drives development*—and that development has to subsidize transportation.

After the Second World War, federally funded highways slowly supplanted this system, creating a windfall for a new batch of developers. One Polish-refugee-turned-real-estate-developer, Nathan Shapell, who owned a large tract of land outside Los Angeles, was approached in the 1960s by the California highway department about the possibility of building a freeway through his property. Shapell was delighted at the prospect—and immediately offered as much land as needed, for free. He also offered to pay for an interchange to get customers to his land. The state official said that would not be necessary; the state would buy his land for the road and pay for the interchange. "What a wonderful country!" he recalled thinking, in a conversation I had with him many years later.

Transit lines, along with other sorts of infrastructure improvements, almost inevitably raise property values—and cities have recently begun to exploit that relationship, funding transportation improvements through the expected increases in property-tax collections. Chicago, under Mayor Richard M. Daley, has extensively used this "tax-increment financing" model of development to rejuvenate itself. In 160 neighborhoods, the city has funded more than $560 million worth of improvements in infrastructure.

But this sort of financing has a limited reach; annual property taxes are only about 1 percent in many parts of the country, so only 1 percent of the upside in rising real-estate values can be captured by the city. The rest is a bonanza for lucky private-property owners (or possibly a payback for smart lobbying). Many of these owners would be willing to pay directly to get these investments under way. A recent Brookings Institution analysis of a proposed $140 million streetcar line in the District of Columbia showed, for instance, that the line would create $3 in land appreciation for nearby private-property owners for every $1 it would cost to build. This is what Senator Newlands found out more than a century ago: transportation drives development, so development can and should help pay for transportation.

How would the private funding of public transit work? Most states already have laws in place that allow local groups of voters to create "special-assessment districts," in which neighborhood property owners can vote to fund an upgrade to infrastructure by charging themselves, say, a onetime assessment, or a higher property-tax rate for some number of years. If a majority of the property owners believe they would benefit from the improvement, all property owners in that district are obligated to help pay for it. These districts can vote to fund new transit as well (potentially, the transportation-financing agency could even receive a minority-ownership stake in the district's private property in return for building new transit). In the late 1990s, property owners paid for a quarter of the cost of a new Metrorail station in D.C. using this approach; after the station opened, an office developer told me he believed his investment was being returned manyfold.

However, this sort of private payment for infrastructure is relatively new in the U.S., and is growing slowly. Organizing these communities of course takes time, and cities and towns have barely begun to publicize their potential.

We could hasten the process by making a much-needed change in federal transportation law. The federal government typically provides 20 to 80 percent of the money for local transportation projects (with local and state governments paying the rest). Yet federal funding of projects that involve private partners is extremely rare—in large part because federally funded projects typically take years to approve, and private developers usually can't tie up their capital waiting for the government wheels to turn. Over the past few years, private corporations and foundations in Detroit raised $125 million to help build a light-rail line, and have been working for some time to secure federal funds to complete the project. Fixing federal transportation law to expedite transit projects would allow faster development at lower public cost.

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The encouragement of additional walkable urban development, which all starts with public transit, would have many benefits. Although building the infrastructure that supports dense development seems expensive, in the long run it's actually much cheaper than conventional suburban infrastructure—at most one-tenth the cost per home. A mile of sewer line costs about the same to build whether it is on the metropolitan fringe or in a densely built inner suburb, but the line serves many more people in the inner suburb. And households in walkable urban areas use considerably less energy, in some instances at least a third less. High-density living even appears to spur faster rates of innovation; in a knowledge economy, ideas come faster and can be developed more quickly when more people can meet and mix easily.

But most immediately, investment in rail, bike, and walking infrastructure, laying the groundwork for developing the kind of housing that is now in demand, is essential if we want to restore the economy to health. In the mid-to-late 20th century, the growth of the suburbs propelled America's economy. Growth of walkable neighborhoods in cities and suburbs can play a similar role in the decades to come, sparking growth in the broader economy—but only if we start preparing today. A

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