
THE PROSPECTIVE MARKET FOR REAL ESTATE DEVELOPMENT

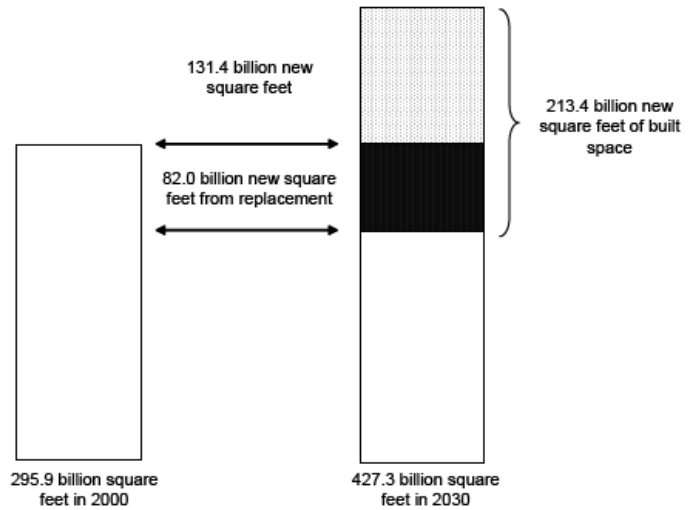
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Market for Real Estate Development

Projected Demand for Realty Asset Development

In Arthur Nelson seminal study for the Brookings Institution¹ the findings of an inexorable need and demand for real estate development as projected to 2030 transcends the current recession. Nelson findings are significantly relevant for the proposal that higher education should continue to have a major role in our future supply of developers:

☞ ***In 2030, about half of the buildings in which Americans live, work, and shop will have been built after 2000.*** The nation had about 300 billion square feet of built space in 2000. By 2030, the nation will need about 427 billion square feet of built space to accommodate growth projections. About 82 billion of that will be from replacement of existing space and 131 will be new space. Thus, 50 percent of that 427 billion will have to be constructed between now and then.



Regional Variations in Projected Demand

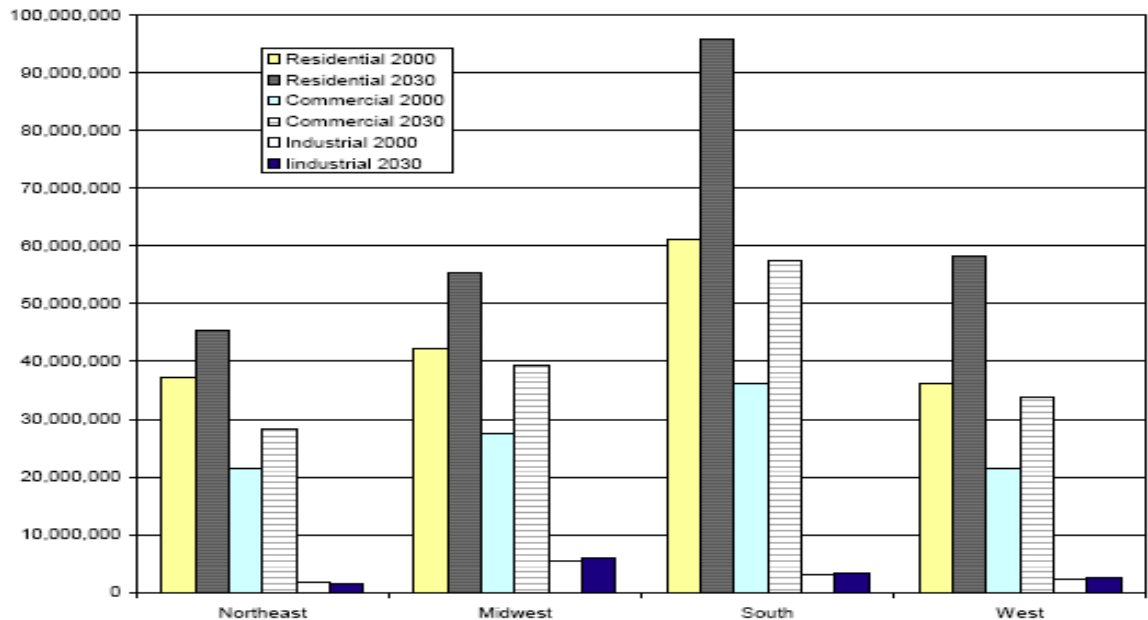
☞ ***By regional variations of development demand to 2030, the findings of Nelson may be summarized in the ensuing chart:***

Geographic Area	Total Square Feet Estimated 2000 ^a	Total Square Feet Estimated 2030 ^b	New & Replaced Square Feet ^c	Percent Total Square Feet in 2030 Built After 2000 ^d	New Square Feet as Percent of Square Feet in 2030 ^e
Nation	295,874,358,000	427,250,696,000	213,449,209,000	72.1%	50.0%
Northeast	60,418,404,000	75,097,600,000	29,659,046,000	49.1%	39.5%
Midwest	74,917,390,000	100,621,685,000	47,537,211,000	63.5%	47.2%
South	100,609,817,000	156,757,456,000	84,436,442,000	83.9%	53.9%
West	59,928,747,000	94,773,955,000	51,816,510,000	86.5%	54.7%
Northeast and Midwest	135,335,794,000	175,719,285,000	77,196,257,000	57.0%	43.9%
South and West	160,538,564,000	251,531,411,000	136,252,952,000	84.9%	54.2%

¹ TOWARD A NEW METROPOLIS: THE OPPORTUNITY TO REBUILD AMERICA, The Brookings Institution Metropolitan Policy Program, 2004.

Projected Realty Growth by Land Uses, Region, and Indiana

- ☞ **Linking these regional variations in growth to broad categories of land uses, the following chart serves:**



- ☞ **Most of the space built between 2000 and 2030 will be residential space.** The largest component of this space will be homesteads. Over 100 billion square feet of new residential space will be needed by 2030. However, percentage-wise, the commercial and industrial sectors will have the most new space with over 60 percent of the space in 2030 less than 30 years old.
- ☞ **Indiana will require another 1,118,417 dwelling units by 2030, a 44.2% increase over the 2,532,319 units in 2000.** Of this demand 441,003 will be from existing dwellings lost to neglect and disinvestment, largely in our economically distressed cities and towns, and reflecting a notable inefficiency in our allocation of resources as well as an opportunity for rehabilitation and renewal. The adjacent states of Illinois, Michigan, Ohio and Kentucky will aggregate the demand for 5,760,065 units, and for the Midwest region that demand is for another 10,758,682, a 40% increase in the existing stock.
- ☞ **Indianapolis alone will require another 388,000 dwellings, a 57% increase.** Midwest cities of Minneapolis-St. Paul [MN], Grand Rapids [MI], Columbus [OH], Cincinnati [OH], Chicago [IL], Milwaukee [WI], St. Louis [MO], Detroit [MI], and Cleveland [OH] will face a demand for another 5,237,000 dwellings. Again, much of this need could be satisfied through concerted redevelopment efforts, and most likely with cost-efficiencies considering the cost, public and private, of sprawl.
- ☞ **Albeit less significant in absolute terms, the national demand for commercial and institutional space toward 2030 will almost double the rate of growth relative to residential, a 90% cf. 51% increase.** For the Midwest the demand will be for another 23,289,021,000 s.f. of such space and for Indiana that demand is 2,128,130,000 s.f., an increase of 88% over its current inventory. For such Midwest cities as Indianapolis the growth is 743,661,000 s.f. [95% increase], and for Grand

Rapids the increase is 106% [468,681,000 s.f.]. For our largest Midwest city, Chicago, the growth is 3.3 billion s.f.

- ☞ **Though a small component of overall growth, the projected demand for industrial space in the Midwest outpaces that of the other regions, unlike the other major land uses.** States with a strong industrial presence will see the largest amount of growth in industrial space even though other areas may witness faster growth. After California, which far outpaces the nation in terms of absolute square feet of new industrial construction, the next four largest producers of industrial space are all Rust Belt states in the Midwest: Ohio, Michigan, Illinois, and Indiana. Indiana alone will generate 442,571,000 s.f. of industrial space, 12% of the growth of 3.8 billion s.f. projected for the Midwest. By 2030, 70 percent of the Midwest's industrial space will be less than 30 years old.
- ☞ **While these projections may seem overwhelming, they also demonstrate that nearly half of what will be the built environment in 2030 doesn't even exist yet, giving the current generation a vital opportunity to reshape future development.** Recent trends indicate that demand is increasing for more compact, walkable, and high quality living, entertainment, and work environments. The challenge for leaders is to create the right market, land use, and other regulatory climates to accommodate new growth in more sustainable ways.

The Challenge Presented by the Projected Need & Demand for Real Estate Development

The challenge posed by Nelson is to plan for and institute smarter growth and smarter development as the necessity of growth is incontrovertible. The high mission of “building better communities” rests then on smarter “builders” and their reliance, in turn, on smarter planners, designers, environmental managers, and public and business administrators, etc. He concludes:

The challenges to accommodate future development vary by region of the country. In general, Western states—like California, Washington, and Oregon—have a strong history of growth management and will need to continue to find ways to improve upon and implement existing laws and approaches. However, neighboring states like Nevada and Arizona, where explosive growth is expected to occur, will need to find their own comprehensive solutions to manage the development boom, while facing limitations on land and water. Overall, the West will not see reduced growth pressures, and will need to find innovative ways to accommodate growth on existing land, in cities and suburban areas. By contrast, the rapidly-growing South is more resistant to regulating growth and must make some important choices about the kind of economic and overall quality of life it hopes to achieve.

Although growth will not be as dramatic in the Northeast and Midwest, these places are not off the hook in needing to rethink its development future. The modest growth in the Northeast, if left unchecked, will likely disrupt the small town tranquility and abundant outdoors that define much of the quality of life, tourism, and natural resource industries of that region. For the Midwest, where state and local strategies to address patterns of sprawl and disinvestment have been uneven, the continued stagnation of cities with rapid land consumption in outlying areas will further erode the overall economic competitiveness of whole metropolitan areas.

So the question for policy makers, planners, and ordinary citizens is clear: Should we maintain the status quo in terms of development patterns, or can we envision a different pattern of growth?

There may be no better time than now to plan the shape American landscape for the next generation.

The Special Case for Affordable Housing

According to the National Low Income Housing Coalition in their current report²:

Before the housing bubble burst, the country had a real demand for affordable rental housing that the private market could not meet:

*There was an absolute shortage of 2.8 million units affordable to ELI households. And since many of the units that were affordable were occupied by households with higher incomes, the actual shortage of affordable and available units was **5.5 million**³.*

The foreclosure and economic crises have only widened the persistent gulf between affordable rents and the incomes of low-wage workers, both by increasing the demand for low-cost units and by decreasing the opportunities for families to make ends meet through gainful employment.

The report measures affordability of contract rent at the HUD standard of 30% of the household's gross, unadjusted income. For illustration, in Indiana the hourly wage requisite to affording a 2-bedroom dwelling is \$13.41. In Indiana, a minimum wage worker earns an hourly wage of \$6.55. In order to afford the FMR for a two-bedroom apartment, a minimum wage earner must work 82 hours per week, 52 weeks per year. Or a household must include 2.0 minimum wage earners working 40 hours per week year-round in order to make the two-bedroom FMR affordable.

In Indiana, the estimated mean (average) wage for a renter is \$11.90. In order to afford the FMR for a two-bedroom apartment at this wage, a renter must work 45 hours per week, 52 weeks per year. Or, working 40 hours per week year-round, a household must include 1.1 workers earning the mean renter wage in order to make the two-bedroom FMR affordable.

The ensuing charts illustrate these thresholds for Indiana, and present the comparative wage standard for each state by way of realizing affordable housing.

² "Out of Reach: Persistent Problems & New Challenges for Renters," April 2009

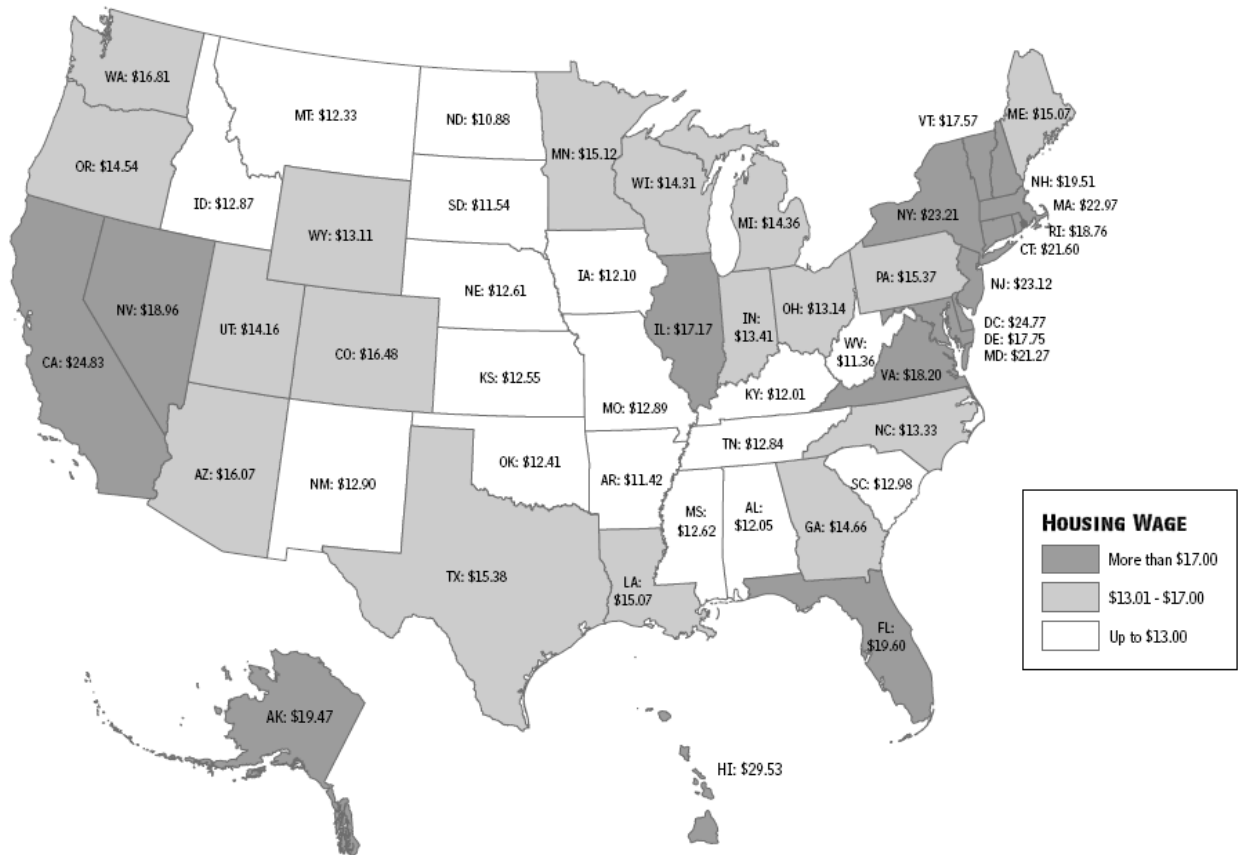
³ NLIHC tabulations of the 2007 American Community Survey PUMS housing file.
[Bruce Frankel, The Prospective Market for Real Estate Development](#)

MONTHLY RENT AFFORDABLE TO SELECTED INCOME LEVELS COMPARED WITH TWO-BEDROOM FMR



TWO-BEDROOM HOUSING WAGE

Represents the hourly wage that a household must earn (working 40 hours a week, 52 weeks a year) in order to afford the Fair Market Rent for a two-bedroom unit at 30% of income.



National Low Income Housing Coalition • Out of Reach 2009

Since the enactment of Section 42(h) of the Internal Revenue Code of 1986, approximately one million units of affordable rental housing have been provided nation-wide through the Low Income Housing Tax Credit [LIHTC] program. Responding to the recent distress of financial institutions [TARP, 2009], on July 31, 2008 the Housing and Economic Recovery Act of 2008 (HERA) was signed into law; a significant portion of which devoted to the LIHTC, providing reforms through the Tax Credit Assistance Program (TCAP) and

the Tax Credit Exchange Program (TCEP), as well broadening the pool of investors and in the provision of gap financing for LIHTC projects.

The LIHTC may be combined with Indiana's HoTIF [Housing Tax Increment Financing]. The State's share of the 5.5 million units currently needed presents a virtually bottomless need and demand for affordable housing development here. That need is multiplied throughout other states, and especially those with a higher cost of housing. This special need was not highlighted in the aforementioned Brookings' study of Nelson.

The Special Case for "Public Interest Development"

Urban Planning has a rich tradition of determining the public interest and a code of values to pursue it in formulating plans and developing the built environment. "Communicative planning" promotes an intensive and inclusive process of engaging stakeholders in informed plan-making. For BSU this is demonstrated well in the approximately 300 Community-Based Projects [CBP] since 1986, client or constituency-based studio projects, and more recently with the architect-driven Sustainable Development Action Team [SDAT] projects. The Indianapolis 2020 Regional Center Plan presents a significant example.

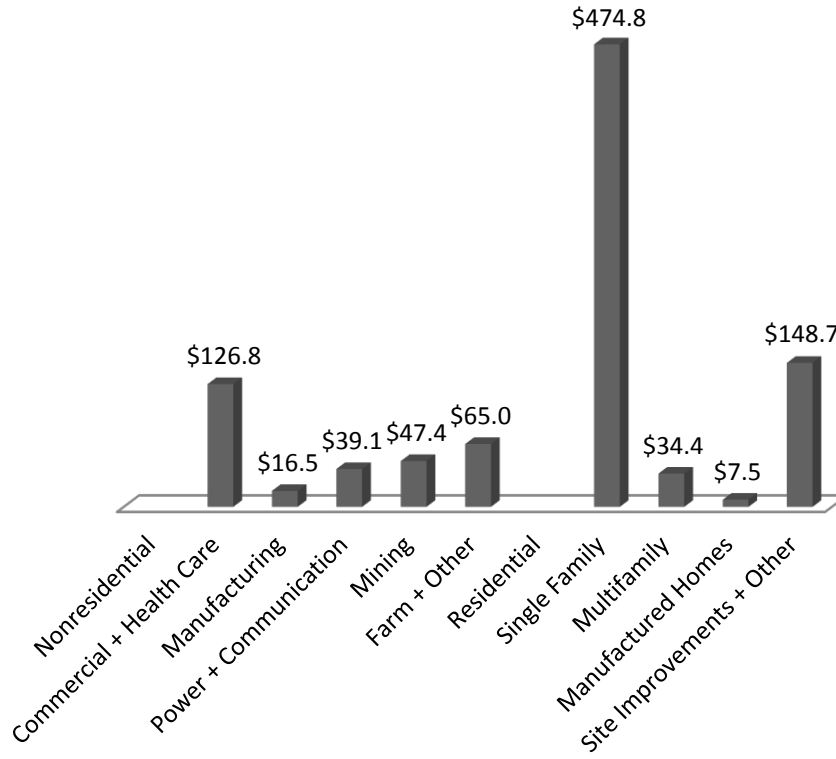
However, most of these plans have yet to be implemented, thus leaving incomplete the planning process and denying the public interest. Simply, there is a long list of public interest "actionable" plans awaiting actions. A central role for the proposed RED graduate programs at BSU is in working with the constituents of these plans in implementation.

Current Realty Landscape

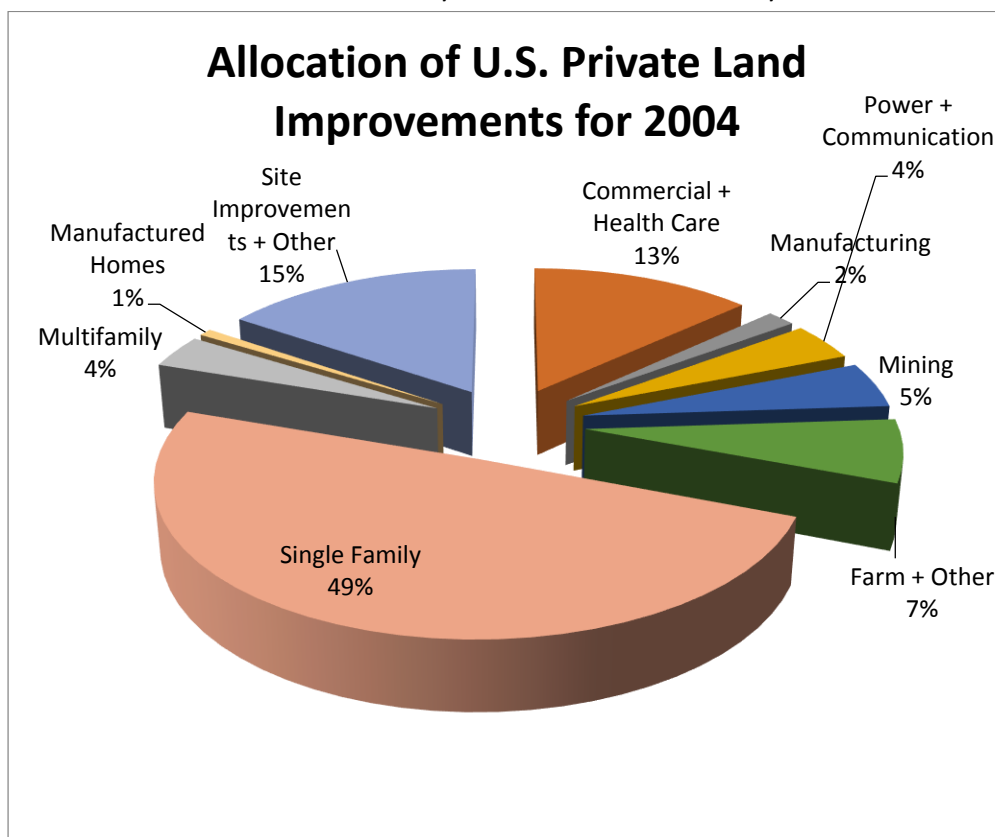
The ensuing charts identify the distribution of real estate assets by land use in 2004. We note the significance of single family homes, commercial assets, including education and health care, and the land developer's role in providing site improvements for builder-readiness.

U.S. Realty Assets

U.S. Private Land Improvements in \$ billions for 2004

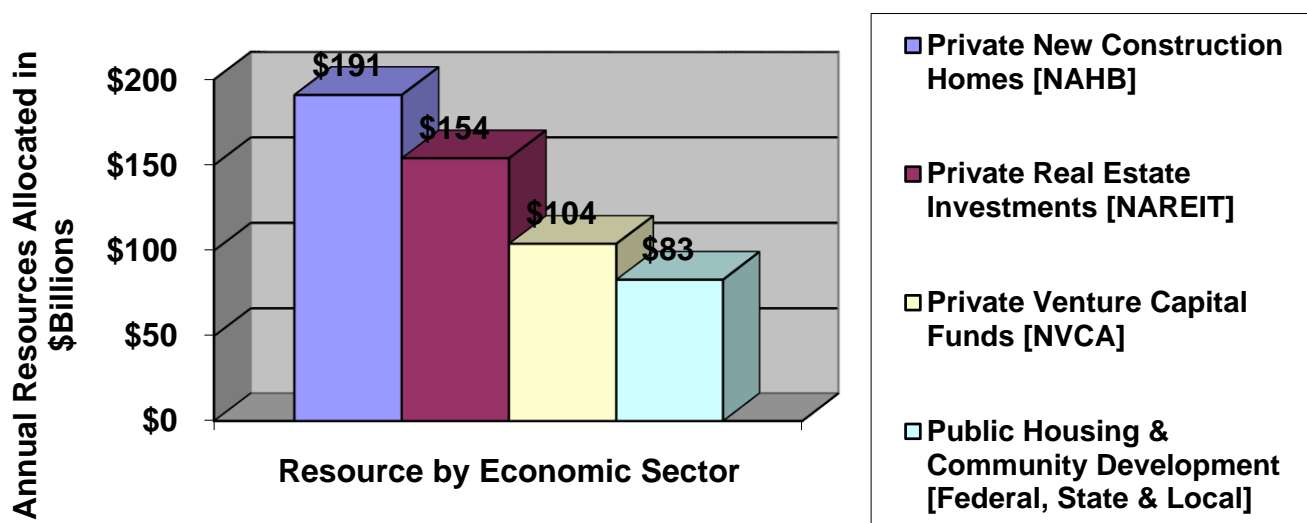


Asset Allocation by Economic Industry



Asset Allocation by Economic Sector

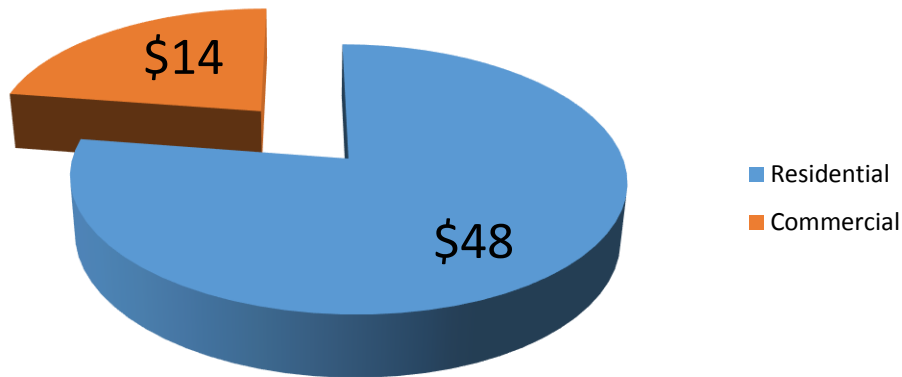
Allocation of Selected American Realty Resources



Worldwide Assets

According to [The Economist](#), "[developed economies](#)" assets at the end of 2002 were the following: [Residential property](#): \$48 trillion; [Commercial property](#): \$14 trillion; [Equities](#): \$20 trillion; [Government bonds](#): \$20 trillion; [Corporate bonds](#): \$13 trillion; Total: \$115 trillion. That makes real estate assets 54% and financial assets 46% of total stocks, bonds, and real estate assets. Assets not counted here are [bank deposits](#), [insurance](#) "reserve" assets, [natural resources](#), and [human assets](#). It is not clear if all [debt](#) and [equity](#) investments are counted in the categories equities and bonds.

Global Realty Assets In \$ trillions



Industry Employment

Relevant U.S. Employment in millions by Year

