

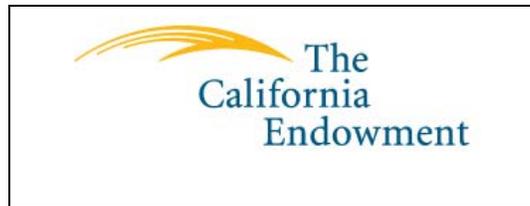
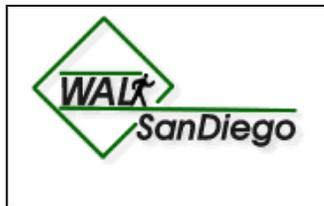
JB&F Consulting

WALKABLE NEIGHBORHOODS

An Economic Development Strategy

Presented by Jim Bliesner,
Steve Bouton and Barry Schultz

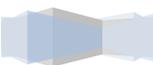
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Abstract

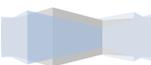
Walk San Diego is a non profit organization that is committed to the development of multiple strategies and programs, which promote walkable environments in the San Diego region. “We envision San Diego communities that invite walking as a preferred choice for transportation and recreation for all people. We are dedicated to enhancing the livability of communities through promotion, education, and advocacy, by making walking a safe and viable choice for all people”

Walk San Diego was funded by the California Endowment to, among other things, research strategies for funding infrastructure improvements in the communities of San Diego. Inherent in the charge was the goal of encouraging walkability as a method for achieving healthy communities. As one strategy for doing this, they raised the question of private financing for these improvements. They asked the question whether Community Reinvestment Act (CRA) investments could be applied to infrastructure improvement to create walkable communities..

This document is in response to that inquiry. It approaches the subject by

1. Doing an exhaustive search and analysis of pertinent national literature and models;\
2. Designing and testing “return on investment” assessments on a model geographical area;
3. Investigating the applicability of current CRA guidelines as it applies to financing walkable infrastructure.

The document provides a rationale for using CRA investments for walkable infrastructure and then makes recommendation for future actions needed to achieve that goal.



Executive Summary

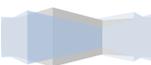
This study provides a comprehensive analysis of the applicability of the Community Reinvestment Act to achieving walkable neighborhoods. The analysis includes:

- An overview of relevant research nationally, which includes economic benefit assessments as well as definitions of walkability infrastructure definitions
- An assessment of economic benefits of walkability locally (Mid City San Diego)
- An analysis of CRA guidelines as they apply to infrastructure financing, including factors which influence the use of CRA funding options

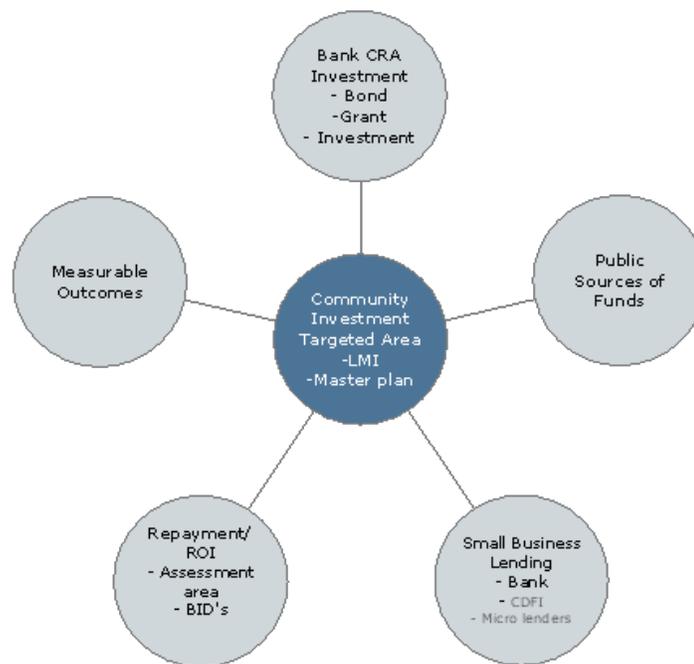
A key finding in this study was the direct correlation between higher housing values and areas defined as walkable and the link to clearly defined destinations within the study area. A second finding was that desirable destination businesses in walkable neighborhoods help create and enhance economic sustainability. The conclusion for this study is that strategic capital investment, contributing to enhanced walkability, actually helps to create an economic development strategy that benefits both property owners and area residents. Building walkable areas, within targeted communities, will increase value in all aspects of the neighborhood life. As a result, CRA funding is an appropriate funding mechanism if supplemental conditions can be achieved.

Locally, the study results show:

- Homes located in definable walkable areas show consistently higher housing values.
- 83% of the variance in walkable vs. non-walkable areas are explained by the number of retail and service establishments within the zone.
- NOD (notice of default) mortgage foreclosures were actually lower in neighborhoods defined as walkable.
- Because 90 percent of the zones analyzed were in low and moderate-income defined census tracts, the overall strategy of bank CRA investments supporting infrastructure improvements should be supported.

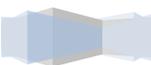


The study produced a clear investment strategy for using bank CRA investments, as summarized in the following chart:



These key investment strategy steps are further supported by both national and local findings as well as CRA regulatory guidance. The study further identified the key factors for qualifying for bank Community Reinvestment Act Funding for Walkable Infrastructure, as follows:

1. Focuses on low-income communities
2. Promotes revitalization
3. Provides partnership opportunities with community development corporations
4. Utilizes familiar financing instruments (e.g. municipal bonds)
5. Enlists banks with high CRA ratings
6. Incorporates small business loans as part of strategy
7. Identifies sources of funds for bond repayment
8. Incorporates existing infrastructure funding mechanisms as part of comprehensive plan
9. Clearly identifies specific improvements
10. Is innovative and unique
11. Facilitates neighborhood stability
12. Incorporates affordable housing



WALKABILITY: THE CONCEPT

The concept of walkability is defined in many ways. San Diego's Pedestrian Master Plan refers to it as a mixture of physical and perceptual elements that make up the built environment that are conducive to walking.¹ This definition emphasizes the dual elements of walkability: its physical element (i.e. walkways, adjacent uses) and its perceived elements (i.e. safety, comfort, enjoyment). Wikipedia defines walkability as "The extent to which the built environment is friendly to the presence of people living, shopping, visiting, enjoying or spending time in an area." Due to the many factors which contribute to walkability, it also has been defined as a "multi-dimensional construct composed of different factors which together comprise a single theoretical concept."² For the purpose of evaluating walkability from an economic perspective, we shall define it simply as the degree to which an area within walking distance of a property encourages walking trips to destinations that satisfy most of your everyday needs (i.e. school, work, shopping, and recreation).

Despite the variety of ways in which walkability is defined, there is a clear consensus on the key characteristics, which make a neighborhood walkable. These characteristics are:

- 1) A discernable center or focal point (i.e. town center, main street, plaza)
- 2) Compact development
- 3) Mixed use and mixed income
- 4) Public spaces
- 5) Pedestrian centric design
- 6) Access to jobs, goods, services and opportunities for social interaction

From an economic value perspective, the key characteristic is the presence of desired destinations within walking distance.³ (Walking distance is generally considered between ¼ mile and 1 mile) However, the design concepts of accessibility, connectivity and safety are important contributors as well. Infrastructure improvements, which address walkability are most commonly discussed within the design context but, as will be discussed here, they can also have a significant economic impact.

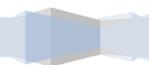
The Economic Impacts of Walkability

As will be demonstrated in the later portions of this paper, the walkability of a neighborhood has a significant impact on property values. There are, however, other economic impacts, which are important for economic and social reasons.

¹City of San Diego Pedestrian Master Plan, Pg.ES-2

² Pivo and Fisher, Effects of Walkability on Property Values and Investment Returns (2009), pg.3

³ Pivo and Fisher (2009), pg. 3



Improved walkability contributes significantly to consumer cost savings. Improving the walkability of a community allows consumers (residents) to save on vehicle and travel expenses. One study found that households in automobile-dependent communities devote 50% more money to transportation (more than \$8,500 annually) than households in communities with more accessible land use and more multi-modal transportation systems (less than \$5,500 annually).⁴ Reduction in driving due to improved walkability can result in reduced vehicle operating costs, vehicle maintenance costs, and related costs such as parking fees, insurance, and vehicle ownership costs.

These consumer savings are particularly important to low- and moderate-income families. Lower-income families tend to pay higher-than-average prices for car-related expenses. A Brookings Institution report stated that, based on a nationwide study, lower-income consumers pay on average two percentage points more in interest for an auto loan than the average higher-income consumers. In 2004, auto loan customers earning less than \$30,000 a year paid an average APR of 9.2% for their loan, while the average APR for customers earning \$60,000 to \$90,000 was 7.2%. The study also reported that drivers from lower-income neighborhoods in 12 sample metropolitan areas paid between \$50 to over \$1,000 more a year in higher premiums for automobile insurance than those living in higher-income neighborhoods.⁵

There is public cost savings associated with improved walkability. The costs related to roads, public parking facilities, traffic congestion, and crash risks can be reduced by shifting travel from motorized to non-motorized modes. Shifting travel from driving to walking can help reduce these various costs, providing savings estimated to average approximately 25 cents per vehicle mile reduced and 50 cents per vehicle mile reduced under peak conditions.⁶

Health Benefits

The health benefits of improved walkability are well documented. Physical inactivity is not only associated with an increase in obesity, but also with a host of other diseases and conditions, including diabetes, heart disease and some forms of cancer. Studies have demonstrated that neighborhood design is a major determinant of physical activity. The form and condition of the immediate neighborhood environment is one of the strongest predictors of whether a person will be physically active.⁷

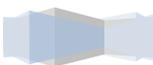
These findings were confirmed by a local study that compared the physical activities of residents from Normal Heights and Clairemont. It found that the participants from Normal Heights engaged in more physical activity (in particular in the performance of errands and other

⁴ Barbara McCann (2009), *Driven to Spend; The Impact of Sprawl on Household Transportation Expenses*

⁵ Mark Fellows (2006), *From Poverty, Opportunity: Putting the mark to Work for Lower Income Families*

⁶ T.A. Litmer, *Economic Value of Walkability*, Victoria Transport Policy Institute (2009), pg. 8

⁷ City of San Diego Pedestrian Master Plan, Section 2.4.1



utilitarian activities). Additionally, 60% of Clairemont participants were overweight compared with only 35% of the Normal Heights population.⁸

A number of studies have quantified the health benefits of improved walkability. One study developed a framework for quantifying the value of reduced mortality from urban design improvements that increase walking activity. Per capita benefits ranged from a low of \$31 to a high of \$12,345, depending upon the particular design improvement.⁹ Another study found cumulative public health cost savings of \$12.6 million over nine years related to the effects of a public transit project on physical activity (daily walking to and from the transit stations).¹⁰

The consumer, public and health savings can be effectively measured and quantified. Todd Litman, in his working paper entitled “Economic Value of Walkability” provides a detailed discussion on indicators and evaluation methods that can be used to measure and quantify the economic impacts of walkability.

The consumer and public costs savings related to walkability have significant implications for community revitalization efforts in low- and moderate-income communities. A Brookings Institution study found that reducing the cost of living for lower-income families by just 1% percent would add up to over \$6.5 billion in new spending power for these families. Capitalizing on these cost savings will enable lower and modest-income families to save for and invest in income-growing assets, such as homes and retirement savings, or pay for critical expenses for their children, such as education and health care.¹¹

Walkability Impacts on Property Values

The proposition that property values within walkable communities tend to be higher than in those communities which are more automobile dependent has been validated by a number of recent studies. One of these studies, Walking the Walk,¹² focused on the impact of walkability on home values within 15 metropolitan areas in the United States.

This study found a direct correlation between higher housing values and walkability. Housing values were positively and significantly correlated with walkability in 13 of the 15 metropolitan areas studied. The study focused on the connection between home values and walkability as measured by a Walk Score algorithm. The Walk Score algorithm looks at destinations in 13 categories and awards points for each destination that is between ¼ mile and 1 mile of the subject residential property. The destination categories are focused on neighborhood serving

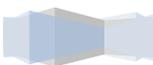
⁸ Salens, Brian E., James F. Sallis, Jenifer B. Black, and Diana Chen (2003), Neighborhood-Based Differences in Physical Activity: An Environment Scale Evaluation. American Journal of Public Health, Vol.93, No.9

⁹ Boarnet, Greenwald, and McMillan (2008), Walking, Urban Design, and Health: Towards a Cost Benefit Analysis Framework, Journal of Planning, Education and Research, Vol.27, No.3

¹⁰ Sokes, MacDonald and Ridgeway (2008), Estimating The Effects Of Light Rail Transit on Health Care Costs, Health and Place, Vol.14, Issue1, March, pgs 45-58

¹¹ Mark Fellows (2006), From Poverty, Opportunity: Putting the Market to Work for Lower Income Families.

¹² Cortright, Joe, Impresa, Inc. (2009), Walking the Walk: How Walkability Raises the Home Values in U.S. Cities, for CEOs for Cities



amenities (i.e. grocery stores, pharmacies, schools, parks, restaurants). Destinations get maximum points if they are ¼ mile or less from the residence and no points if they are more than a mile away. Walk Score has become a common feature included in many online real estate listing services.

The Walking the Walk study found that houses within communities with average levels of walkability commanded a price premium of between \$4,000 and \$34,000 over houses with just average levels of walkability. An additional one point improvement in the average Walk Scores was found to add between \$700 and \$3,000 to the value of a typical house.

The findings of the Walking the Walk study are consistent with other studies which have examined the effect of “new urbanism” on property values. One study found that after controlling for other characteristics of housing, including size, age and quality, buyers paid premiums of 4% to 15% for otherwise similar housing located in new urbanite developments.¹³ A recent study in Portland, Oregon found that houses in pre-war neighborhoods based upon the grid street system experienced greater appreciation than homes within suburban style neighborhoods with a predominately cul-de-sac design.¹⁴ The economic benefits of promoting walkable communities are further highlighted in the fact sheet, “The Economic Benefits of Walkable Communities,” produced by the Local Government Commission, Center for Livable Communities.

Another important study on the impacts of walkability looked at its affect on property values and investment returns.¹⁵ This study used data from the National Council of Real Estate Investment Fiduciaries and Walk Score to examine the effects off walkability on the market value and annual investment returns of nearly 11,000 office, apartment, retail and industrial properties over the past decade in the United States. This study confirmed that walkability was associated with higher value for all types of properties. Properties with a Walk Score of 80 were 29% to 49% more than properties with a score of 20. Consistent with their higher values the study found higher net operating incomes for all property types as well.

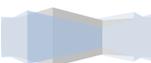
The impact of walkability on investment returns was less definitive and requires additional analysis. The report describes its findings on investment returns as follows:

Our findings for total returns from income and price appreciation were somewhat mixed over the period we analyzed. Private investors who purchased existing walkable office and warehouse properties earned a return that was not significantly different from non-walkable properties. In fact, it was slightly higher for office properties.

¹³ Tu, C.C. and Epllii, MJ (2001), Am Empirical Examination of traditional Neighborhood Development, Real Estate Economics, Vol.29

¹⁴ Song, Y. and Knapp, G (2003), New Urbanism and Housing Values: A Disaggregate Assessment, Journal of Urban Economics 54(2)

¹⁵ Pivo, G. and Fisher, J (2009), Effects of Walkability on Property Values and Investment Returns



For walkable retail properties, the price appreciation was less than for less walkable properties, which we suspect may be due to growth during the period of big-box retail, which tends to be at less-walkable locations. *The lower price appreciation may suggest that the price premium for retail properties are adjusting during this period so that they would earn a market return going forward.*¹⁶

The positive impact of walkability on property values has significant implications for public and private sector community revitalization efforts. Investments in infrastructure which support walkability can result in increased property values. These increases create redevelopment tax increment that can serve to finance further improvements. Additionally, the improved property values in walkable communities suggest that the private sector recognizes the value of walkability and will have a greater willingness to develop and invest in more walkable communities.

Consumer preference studies indicate that approximately 30 to 40% of people surveyed express a preference for walkable neighborhoods. Examples include a consumer study conducted by the National Association of Realtors and Smart Growth for America, which found that 55% of prospective homebuyers desired a home in a walkable neighborhood.

In a 2007 presentation to national homebuilders and the U.S. Environmental Protection Agency, RCLCO, a national real estate advisory firm, reported that based upon its national consumer research studies, a third of the consumer real estate market prefers smart growth development. This consumer preference also exists in auto-dependent California. A 2004 survey by the Public Policy Institute of California identified a significant population segment that preferred to live in a mixed-use neighborhood where local amenities were within walking distance.

Demographic trends also show an established preference for walkable neighborhoods. In *The Option of Urbanism*, Christopher Leinberger outlines the increasing preference among aging baby boomers, empty nesters, and retirees for walkable neighborhoods. For example, there is an established cultural preference among Latinos for neighborhoods with higher density, accessible local amenities, access to public transit and more compact designed neighborhoods that foster more social interaction.

¹⁶ “Effects of Walkability on Property Values and Investment Returns”, Gary Pivo and Jeffrey Fisher, Responsible Property Investing Center, Boston College and University of Arizona, Benecki Center for Real Estate Studies, Indiana University, pp7



SAN DIEGO WALKABILITY ANALYSIS

This section explores the relationship between home values, business concentrations and the concept of “walkability” in selected areas of San Diego County. The analysis was designed to assess whether there is a verifiable link between walkability and economic benefit (revitalization). To facilitate this, we explore the connection between home values and walkability, as measured by County Assessor total assessed property value from 2007 to 2009. In addition, this section also examines the concept that walkability ratings are a direct function of how many and what types of destination businesses are located within a short distance.

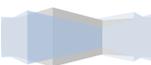
Methodology

In this section, we examined the geographic area within the county known as the Mid City. This included portions of the communities: City Heights, North Park, Kensington and Normal Heights.

The following map points out the general areas included:



Using geographic information technology (GIS), we created 11 study zones within various communities; each zone was 3/4 mile east to west and ½ mile north to south. This was done to



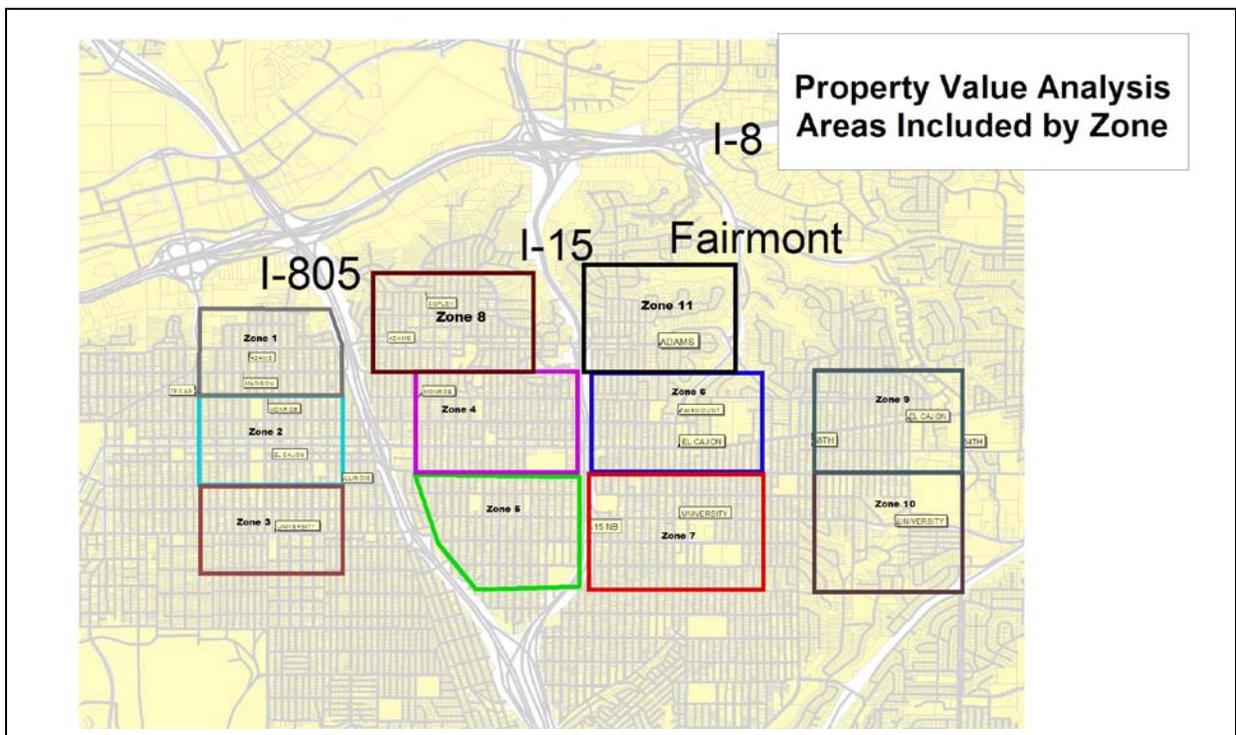
correlate with national studies that tend to define walkable areas as short distances between ½ mile and 1 mile.¹⁷

The benefit of using GIS is that it enables us to research details in a non-traditional analysis, by linking a variety of location information to non-traditional defined boundaries, created specifically to facilitate research with a defined geographic component. In turn, this allowed us to perform a variety of spatial analysis based on the custom defined areas, we call zones.

Once defined, each zone was classified as walkable or non-walkable, based on a common consensus by people living or traveling to the areas.

Areas of Analysis

The following map illustrates the zones being analyzed:



¹⁷ Walking the Walk – Joe Cortright, Impressa, Inc.

Although this is a small sample of San Diego County, these zones offered several advantages to this analysis, specifically:

1. The environment within the study area offered a consistency of similar housing units and composition based on single-family residences and condominiums.
2. The areas all consisted of low- and moderate-income defined census tracts (see page 11), which are a requirement of the investment strategy.
3. There was proximity between walkable and non walkable for purposes of comparison.

Using the GIS, we analyzed:

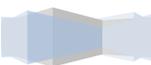
1. Property values, for property that transferred in 2007 vs. 2009
2. Created destination business profiles for each zone
3. Analyzed the Notice of Defaults-Foreclosures' within each zone

Property Values 2007-2009

The total assessed property values (SD County Assessor's Office) were analyzed for properties that transferred in 2007, 2008 and 2009. As a result of the recession, San Diego experienced a decline in property values from 2007–2009 throughout the County.

Based on the zones defined in this analysis, the following table summarizes the percent change in property values in the walkable areas, as a group, vs. non-walkable areas from 2007-2009. This illustrates the point that walkable areas retained higher home values than non-walkable areas.

Summary Table 1 Average Pct Change in Property Value 2007 vs. 2009	
Average of Home pct change	
	Total
Non-Walkable Areas	-17.01
Walkable Areas	-12.39
Total Average Pct Change	-14.49



The following table provides additional information regarding the change in average assessed home value for properties sold between 2007 and 2009. Those areas considered walkable considered as a group, experienced a 12.39% decline while areas considered nonwalkable experienced a 17.01 rate of decline. Although some “walkable areas experienced individually higher rates of decline (zone 8) overall the walkable areas fared better during a period of assessed value decline throughout Mid City.

	Walkability	Assessed Home Values 2007	Assessed Home Values 2009	Assessed Home Value Pct Change	Average Percent Change of Zones
Zone 1	Yes	220	229	4.09	
Zone 3	Yes	270	238	-11.85	
Zone 8	Yes	245	195	-20.41	
Zone 7	Yes	163	138	-15.34	
Zone 11	Yes	522	441	-15.52	
Zone 9	Yes	189	160	-15.34	
					-12.3946
Zone 2	No	242	230	-4.96	
Zone 4	No	190	153	-19.47	
Zone 5	No	186	158	-15.05	
Zone 6	No	273	201	-26.37	
Zone 10	No	177	143	-19.21	
				-85.07	-17.0138

Results from this study confirm:

1. Homes located in definable walkable areas are strongly associated with higher housing values.
2. Walkability adds or maintains value to nearby property and attracts higher levels of investment.



NOD (Notice of Defaults)

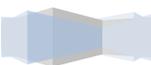
One of the major effects of the recession was the dramatic increase in foreclosures in San Diego County. Foreclosures contributed directly to the decline in property values throughout the County. As an ancillary objective, this research examined the proclivity for foreclosures in the study areas. Data was obtained from Chicago Title, which included the location information that was geocoded to assign a latitude and longitude for mapping and spatial analysis purposes.

Notices of Default (NODs), are recorded at the County Recorder's office, mark the first step of the formal foreclosure process. Recent data related to NODs during the October-to-December period, showed NODs increased 17.9% percent from 5,543 for 4th quarter 2008 to 6,536 for 4th quarter 2009.¹⁸

County/Region	2008Q4	2009Q4	Yr/Yr%
San Diego	5,543	6,536	17.9%

1. Results of this analysis showed that walkable areas have fewer notices of defaults compared to non-walkable areas, which would have affected the area resale values in a positive way.
 - a. Among the 11 zones evaluated, 54% of the total NOD's were in non-walkable areas.
 - b. In more specific terms, walkable areas had **2.4 NODs per 100** single family residences and condominiums vs. **4.2 per 100** in non-walkable areas.

¹⁸ Based on data from April 2008-October 2008



Business Characteristics in Walkable Communities

As part of the study, we built a business profile for each zone analyzed. The profile was based on a database, which included SIC/NAICS business classification data and address information. Using GIS technology, we geocoded the addresses, assigning latitude and longitude coordinate for each business, allowing us to map its location within the zones. Because we could identify the location of businesses, we were able to analyze their type based on their classification and build a matrix defining the number of businesses by type within each zone. A regression analysis was used to model and analyze the relationship between the definition as a walkable area (dependent variable) and types of businesses within the zone (independent variables). In addition, the regression analysis helped us understand how the dependent variable changes when any one of the independent variables was varied.

This methodology lent itself to further understanding the relationship between “walkability” and local economic development. The analysis seeks to determine if certain types of businesses enhance or are associated with walkability. In addition, it assists in defining a link to CRA investment opportunity.

The analysis showed that 83% of the variance between walkable areas and non-walkable areas are related to the number of specific types of destination businesses. This analysis is not a measure of activity but the availability of goods and services needed for a household. We examined various groupings of businesses within the analysis zone.

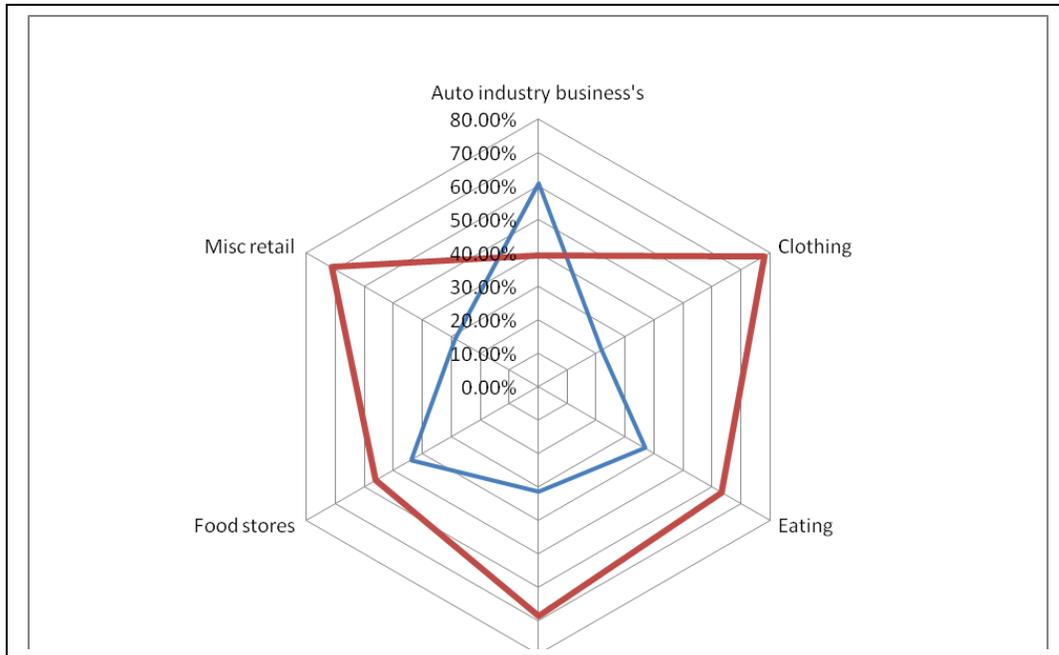
From this, we determined that the following group of destination businesses is most associated with walkable areas:

- Eating establishments
- Grocery stores
- Clothing stores
- Miscellaneous retail establishments

The following chart summarizes the differences between the walkable and non-walkable areas and the types of business within each area. The red line shows the percent of destination business by type in the walkable areas vs. the blue line, which shows the percent of businesses in the non-walkable areas. For example, the walkable areas had a very small concentration of auto industry based businesses vs. the non-walkable areas which had a much larger concentration of such businesses.



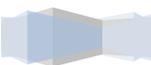
Walkable areas clearly had a higher concentration of the type of general, personal consumption and retail businesses that are necessary for a household.



This result supports the concept that that walkability promotes a more vibrant community where it is convenient and common for people to walk between destinations, as opposed to taking other forms of transportation.

As Jane Jacobs has observed, “walkability is at the heart of urban vibrancy, short blocks, population density and diversity and a mix of uses, building types and ages that all play out in a sidewalk ballet”.¹⁹ The destination businesses identified here make this observation possible.

¹⁹ Jacobs, 1961 – The Death and Life of Great American Cities.



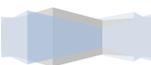
Analysis of Income Classifications In Study Area

Because the primary funding issue is to consider a model for banks for using CRA (Community Reinvestment Act) investments and grants to fund infrastructure investment, an analysis of income status must be applied in this research. The income categories are based on FFIEC (Federal Financial Institutions Examination Council) guidelines issued in November 1995.²⁰ They outline the new CRA regulation, which went into effect in January 1996.

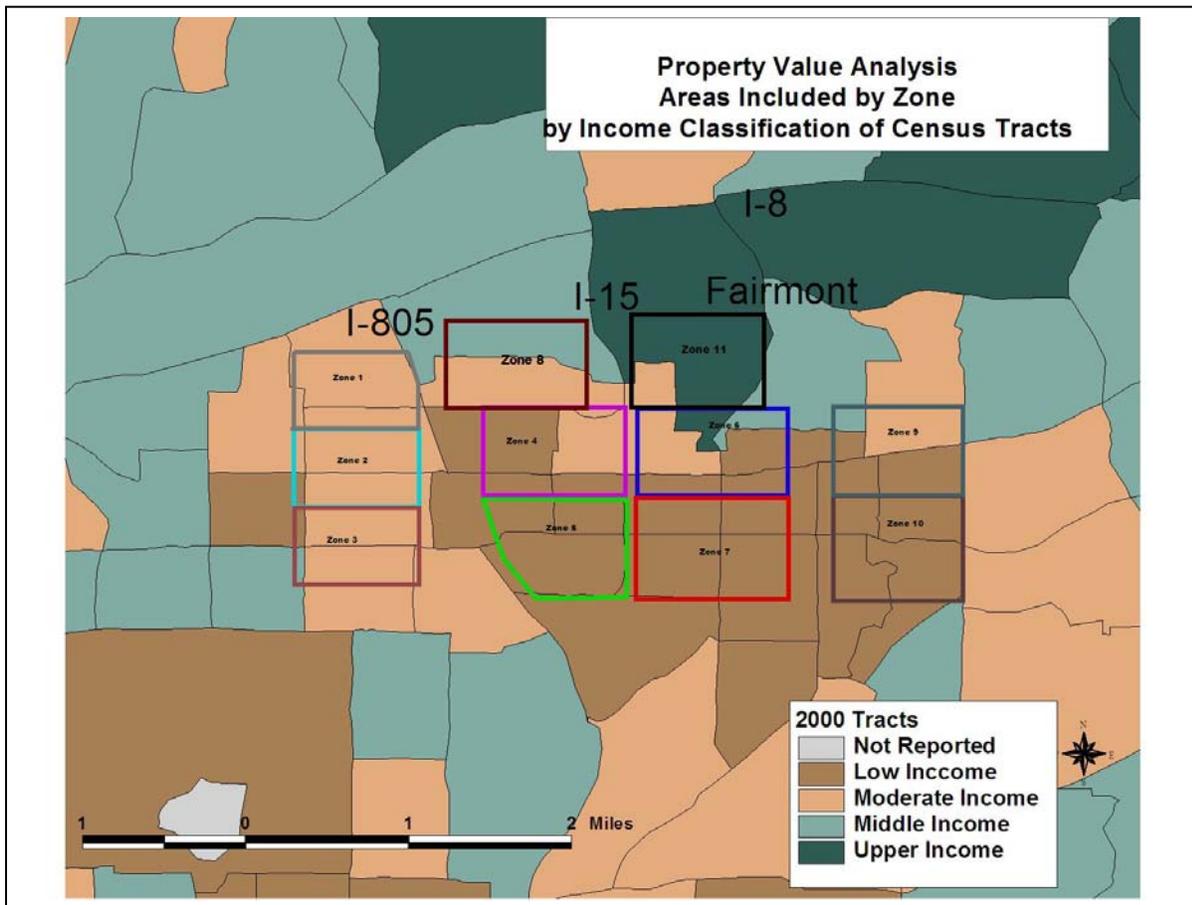
In this analysis, median-family income classification is based on the 2000 median-family income reported in the 2000 US Census data, STF3 file. The table below contains the actual income components of the 2000 census and the corresponding categories:

Median Family Income Definitions San Diego County - 2000 Median Family Income Median Family Income \$53,438		
Category	Definition	Range
Not Reported	No Income Reported	\$ 0
Low Income	Less than 50%	\$26719 or less
Moderate Income	50% to 79.99%	\$26720 to \$42216
Middle Income	80% to 119.99%	\$42217 to \$63591
High Income	120% or more	\$63592 or more

²⁰ This definition is consistent with the Income Definition found in the CRA Regulation, Part 245 – Community Reinvestment, Subpart A, 345.12 – Definition, (n) 1-4, as outlined in the Federal Register /Vol. 60 No. 86 / Thursday May 4, 1995 / Rules and Regulations (page 22202)

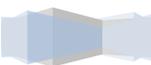


As the map indicates more than 90 percent of the areas analyzed were low and moderate-income census tracts, clearly indicating the feasibility for bank CRA investments.

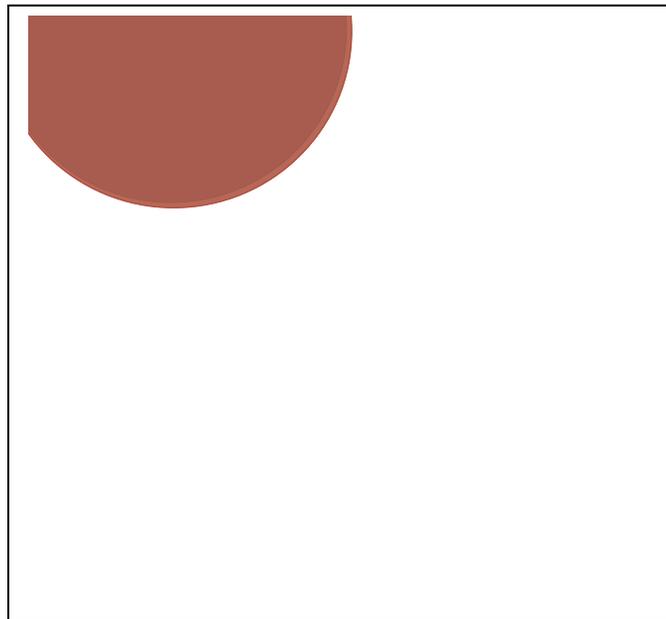


Bank investments in these low and moderate-income areas would improve:

1. Business and local economic environments
2. Housing values
3. Provide an opportunity for banks to retain value in foreclosure

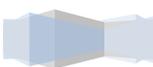


This study analyzed three specific components, which would justify support for a strategy of using bank CRA community investment funds to invest in infrastructure improvements that support walkability.



Results Summary

1. Homes located in defined walkable areas show consistently higher housing values, leading us to conclude that consumers place a positive value on living in walkable areas as well as walkable areas are more resistant to economic slowdowns and change.
2. 83% of the variance in walkable vs. non-walkable areas are explained by the number of retail and service establishments within the area, leading us to conclude that consumers value the convenience of shopping services that exist in a short walking distance,
3. NOD (notice of default) mortgage foreclosures were actually lower in zones that were defined as walkable, allowing us to conclude that walkable areas are in fact more stable and the fewer foreclosures may have had a positive effect on property values.
4. Because 90 percent of the Zones analyzed were in low- and moderate-income defined census tracts, supporting the overall investment strategy of utilizing bank CRA community investments to support infrastructure improvements would be feasible.



COMMUNITY REINVESTMENT ACT: BANK CONSIDERATIONS

Federal guidelines (Federal Reserve Bank) under the Community Reinvestment Act identify a number of categories that are eligible activities for banks; both federally chartered (Regulation Y. 12 C.F.R.225) and state chartered (Regulation H.12 C.F.R. 208.22). They include home mortgages and low/mod areas, small business loans in low/mod areas, affordable housing by non-profits, community development investments and, in some cases, philanthropy.

The most pertinent categories of CRA activity for the funding of “walkable” areas are community development investments. The extent to which financial institutions may make community development investments varies according to the condition and type of institution, the amount and nature of the proposed investment and other such factors. These factors also determine the application and notice requirements, if any, to which a financial institution must comply to make such an investment. The community development investment category of funding is more discretionary than other categories of CRA activity and, in both state and federally chartered institutions, requires prior consent from regulators.

“Financial institutions regulated by the Federal Reserve are authorized to make certain equity and debt investments in corporations or projects that are primarily designed to promote community welfare, such as the redevelopment of lower-income areas and services to support lower-income populations.

State member banks, bank holding companies, and financial holding companies are well suited to play a meaningful and substantial role in supporting community development activities because of their unique combination of financial and managerial resources. These institutions are a vital source of funding, and through direct investment in organizations and projects, they can help further community economic development in low- and moderate-income neighborhoods and increase opportunities for lower-income populations.”(FRB)²¹

The Federal Reserve Bank²² provides a clear statement of the criteria used by the regulator on an eligible community development investment. The regulators assess the purpose and the geography of an investment to determine its CRA eligibility. There must be evidence that the investment will, in-fact, serve to achieve “community development.” Generally, the CD investments have included:

- Affordable housing for low- and moderate-income (LMI) persons
- Community services targeted to LMI persons
- The promotion of economic development by financing small businesses or farms
- Revitalizing or stabilizing LMI areas

²¹ www.federalreserve.gov/resources/stabilizing_communities/community_development_investments

²² “Community Investment Newsletter, Vol.10: No. 3; Summer 1998 by Cynthia Burnett



Regulators seek accumulative impacts within these categories. It is the banks' responsibility to provide the evidence of the community development impact to the regulators in submitting a proposal. "Once the primary purpose is established, examiners assess the degree of innovation and complexity of investments. To do this examiners rely on qualitative information, such as comparing qualified investment to typical investments in an institution's portfolio... examiners look at what types of investments are most common in an assessment area."²³

The most significant regulatory consideration in accepting an application request from a community development investment is whether it is in a low or moderate income community.

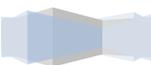
Walkable Infrastructure as a Community Development Investment

Given the existing regulations, it is feasible to use Community Reinvestment Act investments for infrastructure improvements. Obviously, the intent of proposing walkable infrastructure in an area such as Mid City is to achieve community revitalization. In that sense the idea meets the primary regulatory standard. Its intent is to achieve economic development, i.e. increasing property values for homeowners and businesses. In addition, it is intended to revitalize and stabilize a low-income community on the assumption that increased property values will encourage stability of residence and ownership. In a low-income community, an increase in property values is better than decreasing values caused by negative factors (crime, dilapidation, speculation, etc.). The lack of infrastructure can be a clear cause of deterioration and property decline, as numerous studies show. Correcting these deficits can inhibit that decline. The primary beneficiaries of infrastructure improvements are the property owners.

The proposal to use CRA investments as a source of capital for a walkable environment is unique and unprecedented. It is also innovative and if a municipal bond instrument is utilized, it is relatively simple for an appropriate bank to execute. As such, it must be tested via an application from a bank to the regulator with a specific application (neighborhood that is low income). The CRA record, assets, CRA rating and defined CRA goals of the bank would influence a decision by the regulator. The agency proposed to carry out the improvements would also influence a determination. The use of a Community Development Corporation vs. a government agency if coupled with a government bond instrument would strengthen an application for CRA credit by a bank to the regulators.

"Because CDCs are mission-driven organizations created to promote community revitalization; they are often well positioned to engage in development activities in the absence of private investment. Great diversity exists in CDC ownership affiliations, ranging from banks to faith-based entities."(FRB) In a good number of instances it is the bank-owned CDC who partners with the community based CDC to make and manage the investments. A major obstacle to banks doing community investments has been the unique characteristic of this type of investment. For example, it is not a loan and it is not

²³ Ibid



a grant both of which have large departments with standardized processing procedures designed to expedite standardized products. Community development investments tend to be structured in unique manner and therefore require special handling by bank personnel trained to do them. Accordingly, the bank CDCs have been the location within banks for these types of investments. Only a few banks have CDCs: in light of the numerous mergers in recent years (e.g. US Bank, Comerica Bank, Wells Fargo).²⁴

One of the major community investment vehicles used by the banks has been Community Development Municipal Bonds.²⁵ CD Muni bonds are securities issued by states, cities, towns, counties and special districts that have community development as their primary purpose and the interest on them is generally exempt from federal income taxation and in some cases state income taxation. Revenue bonds secured and repaid only from a specified stream of non-tax revenues. Examples of revenues include tolls, utility charges or charges and use fees from a facility being constructed with the proceeds of a bond issue, such as a sports facility or a housing project.

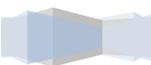
The location of the walkable strategies must then focus on low-income communities. The nexus between what is done, how it is done, where it is done, what the benefits are and who are the beneficiaries provide a solid rationale for using CRA funds to fund infrastructure to create walkability.

Our research illustrates that a walkable neighborhood is one that has pedestrian-friendly business as a destination. Coupling the infrastructure funding with a small business-lending program would dramatically increase the likelihood of achieving approval from federal regulators. Whether the small business lending is done by lending intermediaries with products such as Small Business Administration loans, micro loans or specially targeted bank loan programs, it provides many opportunities to stabilize and stimulate small business growth. This expansion enhances the potential for community revitalization, provides new job opportunities and strengthens efforts to establish walkable communities.

Achieving Community Reinvestment Act designation would also be enhanced if evidence were available which leveraged the CRA funds. For example, there are numerous sources of funding for infrastructure improvements currently available. The designation of a portion of those funds could serve to convince regulators that new CRA funding would have a catalytic effect that would focus public funds on the designated low-income community. Since regulators look for indicators of impact, these corollary public sources would strengthen the application. The

²⁴ Op Cit

²⁵ Bank Holding Companies and financial holding companies derive their legal authority to engage in nonbanking activities, including investing in community development and public welfare companies or projects from Section 4 of the Bank Holding Company Act, 12 U.S.C. 1843, Regulation Y, 12 C.F.R.225 is the principal federal regulation Sections 225.28(b)(12), Permissible Nonbanking Activities, and 225.127, Investment in Corporations or Projects designed primarily to promote community welfare specifically pertaining to community development and public welfare investments.



following list from the current City of San Diego Report on Walkability below provides a list of possible supportive funding.

Walkability Funding – Public (SD Pedestrian Master Plan Report)²⁶

Developer Built or Fair Share In Lieu Fee

Developer Initiated Facilities Benefit Assessment

Federal STP Grant or State RIP Grant SANDAG Transportation Development Act Grants MAJOR INFILL

Developer Built or Fair Share In Lieu Fee Developer Impact Fees

Applicant Volunteers to Assist in Approval

Congestion Mitigation & Air Quality Federal STP Grant or State RIP Grant

SANDAG Transportation Development Act Grants

SANDAG Smart Growth Incentive Grant+

TRANSNET Walkability Grant

Redevelopment Tax Increment Financing

Transient Occupancy Tax Funding

Federal CDBG Funding (if area CDBG eligible)

Federal / CALTRANS TEA

Federal Congestion Mitigation & Air Quality Federal STP Grant or State RIP Grant

State Safe Routes to School Grants

SANDAG Transportation Development Act Grants²⁷

SANDAG Smart Growth Incentive Program

TRANSNET Walkability Grant

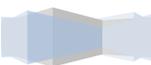
City of San Diego CIP / General Fund

City of San Diego Accessibility ADA Transition Plan

Business Improvement District Funding

²⁶ Download from SANGIS

²⁷ Last printed 11/16/2010 12:06:00 PM SANDAG



Landscape Maintenance Assessment Districts

Adj. Property Owner Required by Permit

City 50/50 Sidewalk Program

City Street Division Sidewalk Replacement

City Street Division Sidewalk Temporary Repair

Business Improvement District Sidewalk Repair

Parking District Funding (Meter Funds)²⁸

Summary of Factors for Community Reinvestment Act Funding for Walkable Infrastructure

1. Focuses on low-income communities
2. Promotes revitalization
3. Provides partnership opportunities with community development corporations.
4. Utilizes familiar financing instruments (e.g. municipal bonds)
5. Enlists banks with high CRA rating
6. Incorporates small-business loans as part of strategy
7. Identifies sources of funds for bond repayment
8. Incorporates existing infrastructure funding mechanisms as part of a comprehensive plan
9. Clearly identifies specific improvements
10. Is innovative and unique
11. Facilitates neighborhood stability
12. Incorporates affordable housing

²⁸ City of San Diego Pedestrian Master Plan, Citywide Implementation Framework Report, Dec 2006

Recommendations

Community Reinvestment Act funds can be a source of financing walkable infrastructure when coupled with appropriate public and community partners.

When CRA funds are applied to low and moderate-income communities they will need to be linked to public repayment or leveraging sources in order to achieve revitalization. Most current public sources of funding are not generally coordinated nor leveraged for maximum impact. The potential to create added value is greatest when improvements occur at some scale. Achieving scale through municipal bonds, for example, can insure that revitalization can be achieved with the economic benefits to residents and businesses. Piecemeal improvements paid from diverse public sources, while beneficial; do not have the overall economic impacts that a planned implementation could achieve. If a combination of public sources can serve to ensure bond repayment, the implementation of a comprehensive walkability plan could be achieved.

Creating new access to capital for start up or for long-term growth for businesses within walkable communities would enhance overall success.

Achieving walkable environments includes diverse neighborhood-oriented businesses located in the area. However, access to capital has been a common deterrent to startup or for long-term cash flow needs. Building a loan pool or orienting existing sources to a designated walkable area would strengthen efforts to achieve walkability. The research conducted in this study distinguishes areas by types of businesses and concludes that neighborhood-serving businesses characterize current walkable neighborhoods vs. larger chain-based businesses. Deterrents exist in traditional lending institutions to these small, localized businesses, which must rely on credit cards for capital needs and commensurate high interest rates. If micro loans or more reasonably priced SBA or CRA type business loans could be made available in designated walkable communities, the potential for small business success and loan repayment would be enhanced by revitalization.

The investments should include patient capital and utilize value capture strategies.

A major barrier to private sector investment in walkable communities is the private sector's predilection towards standardized products with short-term (5-7 year), high-return expectations. This problem is exacerbated when considering investments in low/moderate income neighborhoods.

One potential strategy to address this market dynamic is the establishment of a source of patient equity. Patient equity is an equity investment that has a mid-term (5-12 year) or long term (12+ years) return expectation that allows a project to mature performance over time. This patient capital would expect little in the way of short-term returns with significant participation in mid to long-term cash flows. Charles Leinberger describes an example of such

an investment model in an article entitled “Back to the Future: The Need for Patient Equity in Real Estate Development Finance”.²⁹

Foundations are another potential source through what is called “mission-related investing.” Mission-related investing is broadly defined as investment (vs. “grant”) activity, which seeks to generate a positive social or environmental impact in addition to providing a financial return. This type of investment may be in the form of either below-market investments or market-rate investments.

As demonstrated by the “Walking the Walk” study and related studies on the impact of walkability on property values, the land market responds positively to enhanced walkability. Utilizing “value capture” financing mechanisms, infrastructure improvements can be financed by “capturing” the value premium created by improved walkability. Typical value capture

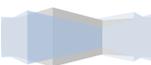
Infrastructure Improvements should be categorized to facilitate matching improvements with appropriate investment sources.

A successful investment model will require the leveraging of public and private funds. Infrastructure investments should be categorized for the purpose of identifying and prioritizing the type of improvements and determining the appropriate financing source. The City of San Diego’s Master Pedestrian Plan provides the framework for this categorization. Improvements are categorized by route type, treatment level and improvement category. The plan provides for three basic treatment levels:

- 1) Basic level – improvements which provide the minimum level of safety, connectivity, accessibility and walkability
- 2) Enhanced level – improvements at a more intense level necessary to address existing barriers to walkability
- 3) Premium level – more intense improvements, which can support heavy pedestrian traffic. The plan also correlates improvements with specific goals associated with improved walkability. Specific improvements correspond with goals of addressing accessibility, connectivity, safety and walkability.

Financing mechanisms include assessment districts, tax increment financing, business improvement districts, parking districts, and property tax assessment districts. This form of financing is well understood and is commonly used to finance many types of public improvements. In light of today’s difficult economic times, many jurisdictions are considering value capture financing strategies to finance improvements related to transit-oriented developments.

²⁹ The Brookings Institution, research brief (2007)



The investment strategy should be neighborhood specific and holistic.

Establishment of clear, comprehensive, sequential plans enhances the potential for accessing investment, whether public or private. Investment goals should be predefined. Based on national models and supported by our own research some basic parameters include:

- Support the development of a neighborhood serving a commercial district/center, which provides goods and services within walking distance of homes.
- Facilitate pedestrian centric design and amenities focused on connectivity, accessibility, and safety.
- Encourage public spaces, which foster social interaction and promote the concept of “eyes on the street.”

Target areas should be identified for catalytic investment.

The economic impacts of walkability occur within a “walking distance” which is generally defined as ¼ mile to 1 mile. Investments should be focused within this distance parameter.

Identifying and/or prioritizing target areas can be accomplished by using a specialized computer model developed to identify the most likely areas where investment in walkability and the projected return on the required investment will yield the greatest value.

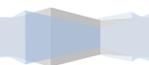
The computer model will need three basic components:

- 1) Pedestrian Attractors – neighborhood retail, community service facilities, schools, transit stops, parks/recreation facilities
- 2) Neighborhood demographic factors - such as, proximity to employment, population density, employment density, existing mixed use, household income
- 3) Neighborhood detractors – such as, collisions, street lighting, speed limits, topography, existence of freeways or railroads.

The model would use data, which is available citywide. Investments should be encouraged which will increase and/or support the neighborhood demographics and pedestrian attractors and minimize/mitigate the detractors.

A similar approach was used as part of the Twin Cities CTLUS Initiative. That model used various “indicators” to identify and prioritize geographical areas within the Twin Cities as “Walkable Urban Places”.³⁰ It was also used with variation in the development of the City of San Diego Master Pedestrian Plan

³⁰ Center for Transit Oriented Development (2009), Twin Cities CTLUS Initiative/Identifying and Evaluating Regionally Significant Walkable Urban Places



Selection and assessment of future designated walkable areas would need supplemental evidence confirming strategies and potential return on investment

Based on other national research, we would have good reason to believe that walkability might reflect other physical factors such as: traffic patterns, transit accessibility, crime statistics, slopes and other urban design factors. This study lacked data and made no attempt to validate the concept of “walk scores” or these data elements.

Further research would need to be conducted to address and prioritize these factors. But more importantly, additional research should be conducted to design a targeting model that would allow users to select specific areas and calculate the business model for investment and return on investment (ROI). Other regional planning models do not address the issues related to investment and economic benefit that are needed if bank CRA community investment funds for infrastructure improvement are to be utilized.

