Bloomberg BNA

Real Estate Law & Industry Report®

VOL. 6, NO. 5 PAGES 133–166 MARCH 5, 2013

HIGHLIGHTS

BNA INSIGHTS: Retail Flowback in Listing Transactions for Unlisted REITs
Spencer Johnson, Tony Rothermel, and **Keith Townsend** of King & Spalding address the options that are available to prevent undue levels of flowback when parties that offer unlisted real estate investment trusts schedule a liquidity event. **Page 136**

CMBS Sector Anticipates Consequences of Dodd-Frank Risk-Retention Rule
With real estate finance conditions steadily improving, the securitization industry is learning to cope with uncertainties surrounding rules to erect safeguards against future disasters that have been under development for two years and that probably will not take effect for at least two more. **Page 139**

INDUSTRY SPOTLIGHT: Industrial Warehouse Market to Continue Growth
Sam Foster, executive vice president of the Industrial Services Group in Los Angeles for Jones Lang LaSalle, describes a ''new paradigm'' in the industrial/warehouse sector that is taking shape as American trade with Asian countries expands. **Page 155**

Moody's: CRE Performance Depends on Developments in Larger Economy
A Moody's Investors Service fourth quarter 2012 review of commercial real estate financing indicates the sector has recovered sufficiently to allay concerns about its stability, but future growth is tied to a slow economy. **Page 151**

THE ECONOMY: Commercial Real Estate Returns Gaining Momentum
Brad Case of the National Association of Real Estate Investment Trusts writes that through the first two months of 2013 the unlevered value of commercial property held by REITs would project out to an annual gain of more than 27 percent. **Page 150**

Minneapolis Initiates Energy Benchmarking; Innovation, New Jobs Expected
Minneapolis in February became the first Midwestern—and the coldest—U.S. city to pass a building energy rating and disclosure policy to mandate energy benchmarking in commercial buildings. **Page 159** . . . Elsewhere, energy efficiency legislation that stalled in 2012 may get new life in the 113th Congress as Republican lawmakers call for increasing energy efficiency in federal buildings and offer praise for other energy conservation goals. **Page 160**

Shifting Tastes, Prices Pushing Suburbs to Embrace Walkability, Transit
Post-World War II suburbs, which defined the American landscape, are adapting to expensive energy, changing demographics, and tastes. Now, according to a new Urban Land Institute analysis, they present an opportunity for another commercial real estate boom. **Page 162**

REORGANIZATION

EQUITY: The U.S. Court of Appeals for the Fifth Circuit Feb. 26 holds that Bankruptcy Code Section 1129(a)(10) does not distinguish between discretionary and economically driven impairment, and a single-asset debtor's desire to protect its equity can be a legitimate Chapter 11 objective. **Page 145**

EMINENT DOMAIN

MORTGAGES: San Bernardino County, Calif., decides not to support the use of eminent domain to ameliorate its depressed housing market by seizing mortgages from securitized trusts, refinancing them, and repackaging them as new securities to be sold to investors. **Page 143**

CRE SNAPSHOT

CONSTRUCTION: Two American Institute of Architects barometers of future construction activity signal an upturn in January. The AIA's Architecture Billings Index rises 51.2 in December 2012 to 54.2 in January, and the AIA's new projects inquiry index improves substantially from December's 57.9 reading to 63.2 in January. Meanwhile, Trepp, LLC, says the delinquency rate for loans in commercial mortgage-backed securities fell to 9.42 percent in February. **Page 153**

 ISSN 1944-9453

Infrastructure

Mixed-Use Development

Shifting Tastes, Energy Prices Pushing U.S. Suburbs to Embrace Walkability, Transit

Post-World War II suburbs, which defined the American landscape, are adapting to expensive energy, changing demographics, and tastes; now they present an opportunity for another commercial real estate (CRE) boom.

According to a late January report from the Urban Land Institute (ULI) *Shifting Suburbs: Reinventing Infrastructure for Compact Development*, the move away from detached, auto-dependent housing began in the 1990s. A rediscovered taste for walking and denser surroundings motivated consumers, and both cities and suburbs started to adapt to a new paradigm. Some succeeded and some struggled. Inner ring suburbs have been helped by their proximity to urban transit centers, but many outer ring suburbs have become better known for foreclosures and financial crises. ''In 2010, for the first time, the majority of the nation's poor lived in suburbs, as suburbs absorbed more of the national rise in metropolitan poverty,'' the report said. Generation Y, a cohort numbering between 80 million and 95 million, moved into cities and the more walkable inner ring suburbs. ''Over the last two decades, driven in part by a desire to attract and retain a young talented workforce, suburban places have launched important initiatives aimed at meeting shifting market demands,'' the report said. Dozens, possibly hundreds of suburban places have already worked to re-imagine their future, building or rebuilding in more compact and sustainable ways, the report said, adding that it is essential to ''rethink suburban infrastructure.''

Compact Development. For compact development to occur, developers and municipalities must determine how to plan, fund, and finance the often costly and complicated infrastructure required for suburban compact growth, the report said. That infrastructure can include:

- transit investments,
- structured parking,
- intricate street grids,
- sidewalks, streetlights, and
- utility upgrades, such as water and sewers.

CRE Possiblities. ''There are lots of CRE opportunities to be had in making more dense compact sustainable places in the suburbs,'' said Rachel MacCleery, vice president for infrastructure at ULI and one of the authors of the report. ''To do that requires a whole new set of skills and tools and approaches from what has been the tradition for the past 50 years.'' Some of the skills would be funding, financing leadership, and vision, she said. ''There needs to be new infrastructure,'' she said.

MacCleery, speaking to BNA Feb. 26, described what the a suburb of tomorrow should look like. Transforming from a highway with strip malls, she envisioned a corridor that could be a community asset that meets several different goals and objectives for the community, rather than a place to simply drive through. It would be greener, shadier, safer for pedestrians and transit users. ''It really functions as a place, in and of itself,'' she said.

To succeed, this sort of suburb would take in a range of densities, land use mixes, and different transportation and infrastructure assets, she said, and a lot of communities are struggling with how it can be achieved.

Suburban Arterial. The category for suburban densification that represents a huge amount of economic activity and actually holds the most hope is suburban arterial, defined in the report as highly traveled but outmoded, strip mall-studded stretches of road. It is also the most challenging. ''They have a hodgepodge of land uses,'' MacCleery said. ''They often require the coordination of multiple jurisdictions. They are very auto-dominated. They often have infrastructure not supportive of walking or biking. It is difficult to change those patterns around.''

A lot of thought has already gone into how they might be reinvented, but there haven't been many workable solutions, she said. Certain exceptions, such as State Road 7, in Florida (See below), have either taken place or are in the works.

Paying For It. As with every large project, funding remains the biggest challenge. The report noted two funding opportunities worthy of attention:

- State transportation dollars. Ensuring that those funds go to transportation investments that support suburban compact development, and

- the development and use of more sustainable funding solutions that capitalize on and reinforce the link between transportation—especially transit—and land use/real estate. This would include the use of ''value-capture mechanisms that leverage real estate or property values to pay for infrastructure, such as special assessment districts or tax increment financing (TIF).''

Case Histories. The report examines four suburban corridors:

- ''State Road 7,'' MacCleery said, ''has this long municipal partnership.'' Connecting Florida's Broward and Miami-Dade Counties, the north-south arterial highway runs between the Everglades and the Atlantic Ocean. The businesses, built in the '60s and '70s, are located in strip malls of the same era. In 2000, local government leaders along the route formed the State Road/7 U.S. 441 Collaborative, with the goal of turning the 41-mile stretch of non-negotiable auto supremacy

   ISSN 1944-9453

into a mixed-use transit oriented corridor. It is the longest-running revitalization effort in the country.

Suggestions from the ULI, in line with community input, caused the retail and residential development to cluster around major intersections, leaving far less in between. The road will be widened, pedestrian amenities are planned, and either a light rail or Bus Rapid Transit (BRT) will be implemented. Although challenged by the economic crisis, the work continues.

■ Dublin, Ohio. Dublin is a prosperous, generic, auto-dependent suburb of Columbus, home to several corporate headquarters, and has seen a population increase from 300 in 1970 to 40,000 in 2010. The city, finding itself facing changing consumer tastes in both young professionals and aging baby boomers, embarked in 2010 on a plan to turn its 1,000 acres into a denser, mixed-use, pedestrian-friendly corridor, built around a preserved, historic downtown area. ''Companies making decisions about where to locate today are focused on where talented young workers want to be instead of . . . where CEOs want to live,'' the report said. The city's Bridge Street corridor has been rezoned to accommodate heightened residential density limits, shooting up from five units per acre to as high as 70. ''Dublin,'' MacCleery said, ''is doing a sort of comprehensive rethink, not just of the corridor but the entire city. The corridor is part of that.''

■ White Flint/Rockville Pike, in Maryland's Montgomery County, a suburb of Washington, D.C. The revitalization of one of America's most affluent areas, which is anchored by the D.C. Metro's Red Line, is a private sector-led initiative. ''The private sector developers . . . have gotten together and said [they] are going to try to fund these things themselves and try to do things in new ways,'' MacCleery said. The White Flint Partnership, a confederacy of six major real estate professionals, came together to develop, implement, and fund a denser, transit-friendly corridor. The group's plan calls for turning the six-lane, arterial highway, famous for almost perpetual congestion, into a modern boulevard with wide sidewalks, dedicated bike and bus lanes, street-front retail, and as many as 10,000 new housing units. An ''incredible'' rise of property values is expected.

■ The Aurora Corridor, Shoreline, Washington. Built around the congested and complicated State Road 99, which had an accident rate approaching one a day, the area began revitalization in 2005. It has either completed or is building pedestrian bridges, bus rapid transport, dedicated bus lanes, sidewalks, a multi-modal trail running parallel, and a public plaza. The first phase of the project won an award of excellence for best city project from the Federal Highway Administration. It also gave the city an opening to upgrade utility infrastructure. Local business owners along the route have been galvanized to redevelop and improve their properties. ''The city has to think like a developer,'' Dan Eernisee, the city's economic development manager, said in the report.

''The Aurora Corridor,'' MacCleery said, ''is really an example of a place that is taking the lead on really rethinking the infrastructure components. They are essentially completely revamping the street and the way the street functions.'' Accidents on the corridor have already dropped 60 percent, and retail and residential development is on the rise.

The Big Change. None of these projects, MacCleery said, really have what she called the whole package yet; the mix between infrastructure investment, real estate development, new development coming in, and the transit leveraging. ''But they are all trying to put together the elements that, at some point, might add up to that big, transformative change that you want to see,'' she said.

The report, MacCleery said, is part of ULI's attempt to shed light on what has worked. A lot of places have aspirations, MacCleery said, and the market and the demographics are pushing in a certain direction. Densifying suburbs are places that deserve our investment and our attention, she said. ''If that doesn't happen, the risk is that development goes someplace else, in greenfield development or very far out, which poses a risk.'' The risk, she said, is to people's quality of life, to the environment, [and] to America's energy future.''

By Kevin Lambert

The ULI report can be found at http://www.uli.org/wp-content/uploads/ULI-Documents/Shifting-Suburbs.pdf.