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RESPONSIBLE REAL ESTATE DEVELOPERS AND INVESTORS

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The Honorable John L. Mica
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Mica,

It was a great pleasure to meet you last week, following the introduction by Bill Battaglia. It is gratifying having someone like you in Congress who both understands real estate development and is committed to high-speed rail.

LOCUS, Responsible Real Estate Developers and Investors, promotes sustainable real estate development, financially, fiscally, environmentally and socially sustainable. The structural changes in what the consumer is demanding today allows real estate developers to build sustainably, which is in contrast to what the market was asking for in the late 20th century. I am attaching the mission and goals of LOCUS with this letter for your information.

Members of LOCUS are pleased that this year's Surface Transportation Authorization Act includes some of the language and policy that reflect this changing real estate environment. We strongly urge the members of the Transportation and Infrastructure Committee to also include the following policy changes that would positively affect the real estate development community *and* spark economic growth from a sector of the economy that represents over 35% of the country's assets, the largest asset class in the economy.

1. Transportation drives development: Recognize the connection between transportation and real estate development.

All developers know that 'transportation drives development'; the transportation system a society chooses to build dictates the kind of real estate development it builds. Past and current transportation policies have prioritized highway construction which led to the development of low-density development, known as drivable suburban development, which is what the market wanted in the mid to late-20th century. However, the market has now shifted, resulting in an overproduction of drivable suburban development, which has been a significant catalyst of the current financial meltdown. Today, there is pent-up demand in the real estate market -in cities and suburban centers as well as rural downtowns- for the development of higher density, mixed-use, walkable communities, as the Urban Land Institute ("Transportation for a New Era", July, 2009), numerous academic studies and my recent book all outline. Walkable communities are where most destinations can be reached by walking, biking or transit, as well as by car. The resulting development of walkable communities will help drive economic growth in this country for the next generation, similar to how drivable suburban development drove

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growth in the mid-to late-20th century. However, walkable communities require a balanced transportation system, which includes transit, biking, walking as well as car transportation.

During the House Transportation Subcommittee mark-up, Representative Gary Miller (CA-42) voiced a concern over linking housing to transportation planning in the bill. He characterized it as "mandated federal land use policy." Since the 1950s, the country's transportation policy has in fact *mandated* one kind of transportation system and therefore one kind of development, drivable suburban development.

The new transportation bill should empower regional and community stakeholders to plan and build the multi-modal transportation systems that are appropriate for their state or metropolitan economy through a "blueprint planning" process. This is a democratic, bottom-up approach that will allow each state and region to custom fit the multi-modal transportation system their economy and citizens require. However, there still needs to be over-arching national objectives met in our transportation system.

2. Fix-it-First: Before another highway project or bridge to nowhere is built, fix our existing road and bridge system.

From the 1950s until the 1990s, the real estate development industry has been one of the strongest advocates for the transportation policies that built our interstate highway and road system. The interstate system is now complete, but it and most other roads and bridges are in desperate need of a return to a 'State of Good Repair.' We must prioritize the maintenance of this system and ensure a state of good repair for our transportation infrastructure.

We strongly support the establishment of the Critical Asset Investment Program to bring our infrastructure to a state of good repair. It is important that we prioritize the maintenance of our existing system, including roads, bridges, and transit facilities.

3. Define National Transportation Objectives with Performance Measures That Reward and Penalize States and Metropolitan Areas

As we discussed, LOCUS supports HR2724, the National Transportation Objectives Act. This bill lays out objectives for our federal transportation system, measures performance and then either rewards or penalizes based upon performance. This is how I have managed the companies I have owned. The second Bush Administration used this same approach for education reform. How the states or metropolitan areas achieve these objectives is up to them, and based upon their blueprint planning.

The STAA bill does make a shift to a performance-based planning process that would require transportation agencies to report progress annually on meeting national

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performance targets. These need to be considerably strengthened so that the National Transportation Objectives outlined in HR2724 are achieved or there are consequences.

4. Provide partial federal credit enhancement for transportation improvements to support local bonding capacity that relies upon future private and public sector revenue generation, known as "value capture".

During the 19th and early 20th centuries, American highways and transit systems were partially or entirely funded by the private sector, especially real estate developers. Developers financed these transportation improvements out of the land development profits generated from these very transportation improvements. Today, we call this approach "value capture".

Value capture, either private sector or public sector (tax-increment financing), should be encouraged in the transportation bill to help bridge the substantial funding gap between federal and state resources and the cost of required transportation improvements. Relying upon future private land development profits or increased public tax revenues made possible by the transportation improvements will put discipline into the underwriting analysis of the improvements while raising the desperately needed funds for construction. It will also put the real estate development industry into the decision-making process since they will be committing financial resources. However, what is needed is partial federal credit enhancement for the construction bonds; most local government or transportation agencies have limited access to the bond market for such large projects, especially today. We are suggesting partial, as opposed to full, federal credit enhancement to insure that irresponsible transportation investments are not made.

We urge the Transportation and Infrastructure Committee to consider these additions to the current draft bill. The real estate development and investor members of LOCUS, such as the steering committee members listed to the left, would be pleased to discuss these suggestions with members of the committee or staff.



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CC: Bill Battaglia