Emerging Sustainable Real Estate: Trends, Opportunities and Obstacles in Bridgeport, Connecticut

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Abstract
[Excerpt] As real estate professionals confront the current economic downturn, they are devoting more attention to interpreting evolving demographics, consumer preferences, and public policy in order to identify emerging trends and opportunities in real estate. Trends frequently cited include sustainability revolving around infill strategies like smart growth, and transit oriented-development (TOD). While analysts often cite smart growth and transit oriented development as new strategies for sustainable real estate development, they are not new concepts.

Keywords
Cornell, real estate, Bridgeport, Connecticut, Sustainable Development, mart growth, Demographic Trends, Consumer Preference, ransit oriented-development (TOD)
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For decades, proponents have argued that urban sprawl is unsustainable, and that
our country needs to decrease its overwhelming dependence on oil. Several studies have
shown that sustainable real estate planning and development reduces sprawl, combats
adverse environmental effects, and promotes efficient use of transportation systems that
reduce traffic congestion and fuel consumption. Although these planning and development
strategies have made theoretical sense, government policies and the additional associated
development costs have made them difficult to implement. Are these trends really emerging
as profitable opportunities for real estate professionals?

The City of Bridgeport, Connecticut provides an excellent case study for examining the
opportunities in and obstacles to the successful implementation of sustainable real estate.
Bridgeport is committed to redeveloping itself using sustainable fundamentals. Both the
public and private sectors are converting their talk about smart growth and TOD potential
into actual results. To achieve this, both sectors are relying on techniques that aim to lower
the development costs associated with higher density projects. Although the success of
these sustainable development practices cannot be determined for numerous years, the
actions taken in Bridgeport today will largely determine its success for long-term urban
revitalization.

Defining Sustainable Development

Before discussing the emerging trends and methods of sustainable real estate
development, the term should be clearly defined. “Sustainable development” is defined
as development that meets the needs of the present without compromising the ability of
future generations to meet their own needs. The U.S. Senate has also defined sustainable
development as a pattern of resource use designed to:

- meet housing needs for households of all income levels, ages, races and ethnicities;
- provide safe and reliable transportation options to increase mobility and access to
  essential destinations within regions and communities;
- meet long-term infrastructure needs to residents and businesses within existing
  communities;
- enhance long-term economic competitiveness;

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1 The Urban Land Institute, Emerging Trends 2009, 2010
3 Reconnecting America, a White Paper, Realizing the Potential for Sustainable and Equitable TOD. Reconnecting America, 2009.
support public health outcomes; and preserve the environment, including open spaces and rural lands.

Smart growth and TOD have emerged as techniques to implement sustainable development. These methods recognize that development patterns of “sprawl” are unsustainable and that new growth should focus on bettering existing communities. Both techniques result in the creation of “livable communities.” A livable community is “a metropolitan, urban, suburban, rural or neighborhood community that provides safe and reliable transportation choices; promotes location and energy-efficient housing choices for people of all ages, incomes, races and ethnicities to increase mobility and lower the combined cost of housing and transportation; enhances economic competitiveness; protects farmland and open spaces; revitalizes neighborhoods; and supports public health outcomes and improved quality of life.”

**Demographic Trends**

In 2006, the U.S. population reached 300 million people. In the 39 years preceding 2006, the U.S. population grew by 100 million people. Demographers estimate that the population will increase by another 100 million in an even shorter time span. The U.S. Census estimates that the U.S. population will reach 400 million people by the year 2040. Demographic trends will have a large influence on future real estate demand.

Examining the change in the U.S. population’s age composition between 1970 and 2030 (estimated) (See Figure 1) reveals a growing market of older Americans created by the aging baby boomer generation. This change in composition will increase the number of “empty nester” households. Currently, the average American household size remains at a historic low of 2.6. Figure 2 illustrates that the number of married couples with children has decreased from 40.3% in 1970 to only 22.5% in 2007. These changes illustrate a fundamental shift away from the traditional U.S. nuclear family. Singles are quickly growing into the new majority. Real estate professionals must recognize that as the real estate consumer demographics change, so will consumers’ real estate needs. The evidence suggests that empty nesters, married couples without children, and singles are more attracted to high-density lifestyles and will seek smaller homes in locations with a greater mix of amenities.

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5 Reconnecting America, a White Paper, Realizing the Potential for Sustainable and Equitable TOD. Reconnecting America, 2009.
6 Hidden in Plain Sight: Capturing the Demand for Housing Near Transit, Reconnecting America, Center for Transit-Oriented Development, 2004.
Consumer Preferences

The current economic downturn has caused most Americans to examine their expenditures in an effort to cut unnecessary costs. According to the most recent Consumer Expenditure Survey completed by the U.S. Bureau of Labor, at year’s end 2008, the top two costs for the average American household were housing (32.3%) followed by transportation (17.6%). The typical family spends more on transportation than they do on food, healthcare, entertainment, or clothing (See Figure 3).

Large portions of the housing and transportation expenditures correspond directly to the cost of fuel and energy. Real fuel prices, which incorporate the effect of inflation, remained at historic lows from 1986 through 2006 (See Figure 4). This allowed consumers to purchase larger homes located further away from their places of employment. In a report produced by the Brookings Institute, the Institute analyzed changing driving patterns of Americans, measured by Vehicle Miles Traveled (VMT). The study revealed that:

Driving, as measured by national VMT, began to plateau as far back as 2004 and dropped in 2007 for the first time since 1980. Per capita driving followed a similar pattern, with flat-lining growth after 2000 and falling rates since 2005. These recent declines in driving predated the steady hikes in gas prices during 2007 and 2008. Moreover, the recent drops in VMT (90 billion miles) and VMT per capita (388 miles) are the largest annualized drops since World War II.7

This consistent decrease in VMT over the past 5 years has resulted in continual increases in transit ridership during the same period (See Figure 5).

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Sustainable Trends Align with Demographic/Consumer Preference Changes

These changes in demographics and consumer preferences explain why urban infill properties along transit lines have emerged as real estate development opportunities. Americans are becoming more aware of the economic, social, and environmental benefits that livable communities provide. Development strategies like smart growth and TOD focus on creating safe, convenient, attractive, and affordable neighborhoods. Continued changes in consumer preferences and demographics will increase demand for livable communities. The City of Bridgeport, Connecticut serves as a case study highlighting the opportunities in and challenges to implementing sustainable development. Bill Finch, mayor of Bridgeport, states in his mission statement: “We are committed to making Bridgeport the cleanest, greenest, safest, most affordable city with schools and neighborhoods that improve every year.”

History of Bridgeport, CT

Located in southwestern Connecticut, Bridgeport is located approximately 60 miles northeast of New York City. From 1875 through World War II, Bridgeport was a thriving industrial center, home to more than 500 factories. During this heyday, Bridgeport served as a vibrant and innovative community that developed a superb transportation infrastructure, historic architecture, and a large public park system. During this period, more than 1,300 acres of property within the city borders were set aside as parkland, including two parks that were designed by renowned landscape architect Frederick Law Olmstead.

The deindustrialization period left the city with several contaminated sites, high unemployment, and high crime rates. As factories shut down, unemployment rates rose. Major corporations moved to neighboring cities such as Stamford. Manufacturers abandoned their old locations as they started moving their operations overseas. The city inherited a large inventory of vacant, contaminated brownfield sites that remain a substantial liability. In contrast to neighboring cities, Bridgeport has been unable to capitalize on its close proximity to New York City and a massive transportation artery. Surrounded by some of the wealthiest neighborhoods in the country, it remains unclear why Bridgeport has been unable to redevelop a stable and vibrant economy.

Over the past decade, the leaders of Bridgeport have worked to revitalize the city. In

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9 The City of Bridgeport, B-Green 2020, A Sustainability Plan for the City of Bridgeport, CT, 2010.
2005, the city reached out to the Urban Land Institute (ULI) seeking guidance and leadership. The ULI organized an advisory board who evaluated and analyzed the city’s economic development and made recommendations to enhance the city’s economic redevelopment. The ULI report found that the city had clung to its manufacturing identity for too long. Long ago, the nation began moving its industrial needs overseas. Industrial cities that were unable to reinvent themselves as innovative communities have struggled. However, the panel believed that the City had enormous potential. If Bridgeport could part ways with its manufacturing past and carve out a new niche, the panel reported, it could “actively craft a new image, based on a community vision that claims its unique position in the region.”


The Opportunity

Bridgeport provides a tremendous real estate opportunity. Many of the major pieces needed to create a successful livable and sustainable community are in place. Foremost, the city lies on a highly developed and sophisticated transit hub that provides access to the economic centers of New York City and Stamford. Known as the “Park City”, the city has a significant park system already in place.

The “art scene” is blossoming in Bridgeport. As art space in New York City has become increasingly expensive, artists have been looking for alternative living and work spaces. As a result, Bridgeport has become home to a growing arts community. Studies performed by Richard Florida show that the development of substantial art communities is a leading indicator of urban revitalization. Like the art community, many major corporations have moved from New York City to southern Connecticut over the last decade in search of lower rents. Adding to the city’s potential is the strength of buying power in surrounding areas. In many ways, Bridgeport is the last “fixer-upper” house on a street of luxury homes. There are obstacles impeding Bridgeport’s ability to capitalize on its potential. However, if Bridgeport can provide amenities with safe and affordable investment opportunities, it could attract corporate and consumer interest.

Given the demographic and cultural changes occurring nationally and Bridgeport’s development opportunities, the private sector has become increasingly interested in the City’s development potential. Forstone Capital, LLC is one such company that has acted on this potential. Forstone is a diversified real estate investment and management company that has purchased several properties in downtown Bridgeport during the last few years. Their company understands the challenges inherent in Bridgeport. Forstone has decided to confront these challenges aggressively with a hands-on approach. Forstone has committed to a long-term holding strategy, actively repositioning its properties to obtain its short-term investment hurdles. Forstone believes that an active investment strategy combined with a strong commitment from the public will equate to healthy returns.

Obstacles

There is far more publicity over smart growth and TOD than successful examples. This is partially attributable to the economic downturn that has halted almost all real estate development. However, the creation of sustainable development was limited even before the economic recession. As economic recovery begins, the champions of smart growth, TOD, and urban revitalization must confront several real issues to make implementation economically viable:

- Align public policy at the federal, state, and local levels with sustainable development
- Improve financial feasibility of high-density development costs through zoning changes and public subsidies.
- Create a sense of community, and offer residents a high level of “choices”

Aligning Public Policy

Advantageous public policy is a major component necessary for restoring prosperity to blighted urban areas. *Restoring Prosperity: the State Role in Revitalizing America’s Older Industrial Cities*, a report completed by the Brookings Institute, describes the challenges facing these communities, the unprecedented opportunity that exists to leverage their many assets, and a policy agenda to advance their renewal. Many of the distressed urban communities are experiencing positive changes due to changing demographics and the national momentum behind urban renewal. These changes are minor relative to the overall potential for change. The report states that, “If older industrial cities are to fully capitalize on the positive trends now at hand, government leaders—working in partnership with a range of for-profit and nonprofit stakeholders—need to design and implement a new urban agenda, one aimed not at managing these cities’ economic decline, but at stimulating their economic revival. Cities, to be sure, must necessarily take the lead in developing their own vision for long-term revitalization, and a strategy by which to achieve it.”

On October 24, 2008, Mayor Finch signed an executive order aimed at developing a comprehensive sustainable strategy for Bridgeport. This new sustainability plan, B-Green 2020: outlines a policy and action framework to be implemented by the year 2020 to improve the quality of life, social equity, and economic competitiveness for all the city’s 136,000 residents as well as those individuals who come to Bridgeport to work and visit. This framework will enable revitalization without gentrification; will intensify urban amenities while enhancing environmental quality; will modernize foundational infrastructures while retaining historic character; and will establish the Bridgeport of the future without sacrificing the many strong points of the Bridgeport of today.

To encourage sustainable urban infill, governments of all levels must realign their policies with sustainable trends. The creation of the Bridgeport’s sustainability initiative was an important step in this process. Following the Mayor’s executive order, a public-private partnership between the City of Bridgeport and the Bridgeport Regional Business Council, a consortium of local business groups, tackled the task of creating a comprehensive plan. The City of Bridgeport decided on a public-private partnership structure because cooperation between the two sectors is essential for city’s long-term revitalization. On March 5, 2010, the partnership formally released B-Green 2020. The plan outlines the policies and actions that the City will implement during the next decade “to improve the quality of life, social equity, and economic competitiveness of the city while reducing carbon emissions and increasing

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the community’s resilience to the effects of climate change and increasing energy costs.”17 B-Green 2020 follows the recommendations outlined in the Brookings’s report, Restoring Prosperity, by creating an agenda aimed at stimulating its economic recovery.

The federal government showed a similar commitment to sustainable development. In 2009, the Obama Administration launched an Interagency Partnership on Sustainable Communities. This partnership between the U.S. Environmental Protection Agency (EPA), U.S. Department of Transportation (DOT) and the U.S. Department of Housing and Urban Development (HUD) will serve to “coordinate federal housing, transportation, and other infrastructure investments to protect the environment, promote equitable development, and help to address the challenges of climate change.”18 During the past several decades, federal transportation and housing policies were influential in the nation’s shift in growth from urban communities to suburban communities. The federal government allocated the majority of infrastructure funds to developing the national highway system. In addition, they assisted by improving access to low mortgage rates by a larger group of Americans. The combination of these policies led to suburban growth and a decrease in urban populations and tax revenues. The formation of the Interagency Partnership is a sign that the federal government understands the downside of its past policy. The partnership will aid in the proper allocation of incentives, and is a major step in the revitalization of urban areas. A major goal of the Interagency Partnership is to reprioritize federal funding criteria to support the creation of livable communities. In the future, federal agencies are more likely to distribute their subsidies to locations, such as Bridgeport, that fit their environmentally conscious agenda outlined in U.S. Senate Bill 1619, “The Livable Communities Act”. These new public sector agendas are important because they illustrate an increased commitment to sustainable fundamentals. They have helped create a vision and a road map for sustainable real estate growth. During the past 30 years, Bridgeport has created four separate master plans. Frequent change and lack of stability have prevented the city from realizing a plan for revitalization. To attract real estate development, the private sector must have a clear understanding of the public sector’s vision and must share its long-term commitment. The frequent changing of Bridgeport’s master plans has created some skepticism within the private sector. Positive change will hinge on the city’s ability to stay the course. All involved parties convert the rhetoric into reality.

**Improving Financial Feasibility**

Realigning government policies is crucial to the successful implementation of urban revitalization because it aids financial feasibility. Comparing development costs of urban high-density areas to suburban low-density areas, the development costs on a square foot basis are substantially higher for higher density areas due to higher construction costs and unfavorable parking requirements. Urban construction costs can be extremely expensive due to the use of more costly materials such as steel and concrete. The costs of urban parking construction impede new high-density real estate development.

Bridgeport’s Office of Planning and Economic Development understands the impact government policies have on development, and has spent the past several years reworking the city’s master plan and zoning regulations to attract developers. Like most cities, in the second half of the twentieth century Bridgeport instituted a suburban zoning strategy in its urban core. The city reworked its zoning to, “bring the emphasis back to mixed use and transit-oriented development with location-appropriate parking requirements and design

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18 A White Paper, Realizing the Potential for Sustainable and Equitable TOD. Page 1. On June 16, 2009, in testimony before the Senate Banking Committee, LaHood and Donovan were joined by EPA Administrator Jackson. The three announced a formal Interagency Partnership for Sustainable Communities and identified a set of shared principles and actions that the three federal agencies would undertake in support of this partnership.
controls that intensify development in the right locations, encourage high quality green development and preserve existing neighborhoods.”

One substantial zoning change that directly decreases future development costs is the lowering of the parking requirement for residential structures from 1.5 spaces per 1000 square feet of built space to 0.25 spaces per 1000 square feet of built space. Donald C. Eversly, the director of the Office of Planning and Economic Development, stated that his office reworked the city’s master plan to increase flexibility for private developers and to align its policies with Bridgeport’s new vision for smart growth. These changes in city regulations made urban development feasible for developers like Forstone. The first step of Forstone’s Bridgeport investment strategy was to acquire several key downtown parcels within a ¼ mile of Bridgeport’s transit hub, and to focus on creative repositioning in order to meet initial financial feasibility. Brandon Hall, a principal of Forstone, acknowledges that changes made by the city enabled Forstone to pursue its long-term redevelopment plans:

“The parking concession, along with several other zoning changes, displays the Planning Department’s commitment to assisting the private sector in order to make our future plans more financially attainable. This move could potentially be the difference in allowing certain projects to move forward that otherwise would have not been financially feasible. We believe that mutual rewards will be generated through this level of continued cooperation.”

Zoning changes are essential to making redevelopment projects viable. However, in many cases, they are not enough. Developers ultimately look for government incentives to help finance urban infill projects. Such subsidies make high-density development projects feasible and are necessary for Bridgeport’s initial revitalization. The Interagency Partnership’s purpose was to ensure that the EPA, the DOT, and the HUD would use the six sustainable criteria outlined to guide their approval of federal grants. Projects within the City of Bridgeport qualify for the majority of these federal incentive programs, but the economic downturn has increased competition for the limited amount of public funding available. Securing such funds is extremely difficult. One goal of the Interagency Partnership is to streamline the convoluted application processes to ensure funds are distributed properly.

Forstone has focused their efforts on the New Markets Tax Credit. On December 21, 2000, the Community Renewal Tax Relief Act of 2000 was signed into law. This landmark legislation includes the New Markets Tax Credit, which has spurred the investment of $29 billion in new private capital into a range of privately managed investment vehicles that make loans and equity investments in “New Markets” businesses. By making an equity investment in an eligible “community development entity” (CDE), individual and corporate investors can receive a New Markets Tax Credit worth 39% of the amount invested over the life of the credit, in present value terms. A number of pioneering community-based institutions have demonstrated track records in finding viable market opportunities in areas often overlooked by traditional investors. By increasing their capital base, this tax credit will enable CDEs to lend and invest more, to attract additional outside capital, and to encourage more private sector engagement in market-priming activities.

The New Market Tax Credit reduces the amount of upfront equity needed from developers. Brett Wilderman of Forstone notes that, “at this point in Bridgeport, without such tax credits, development is rarely financially feasible. Alone, leases and rental rates do not justify development costs. On the other hand, with an incentive such as the New Market Tax Credit, development or redevelopment becomes intriguing.”

Creating True Livable Communities

The displayed changes in consumer preferences and demographics indicate an increased demand for true high-density livable communities. Whether or not this demand is realized depends on the ability of areas, such as Bridgeport, to create and offer truly livable communities. To become a livable community, areas must offer attractive options for housing, transportation, retail, and other cultural amenities. Successful implementation of TOD occurs when all these key elements are put in place. The interaction of these key elements generates community momentum and attracts consumer demand.

The foundation for a truly livable community has been laid in Bridgeport. Bridgeport has a “walk-about/main-street” feel while offering various transportation options. However, in order to become fully viable, the city must offer better access to retail, recreational, and cultural opportunities. Proponents of sustainable real estate development often overlook the need to maintain a certain intensity of mixed-use amenities. Increased convenience and varied amenities attract residents and lead to urban population growth. Generating the necessary momentum to allow retail/hospitality tenants to remain profitable is not a simple process. Both the public and private players within the Bridgeport community have taken significant steps to increase the city’s amenities. The city has helped generate several venues and outdoor spaces at which cultural programming can be presented. The redevelopment of the Read’s department store building represents another such effort.

When the Read’s department store opened in 1925, it was hailed as the largest and most modern department store in New England. Read’s was a symbol of Bridgeport’s sophistication and prosperity. As the city experienced difficulties associated with deindustrialization, so did Read’s department store. In 1981, the department store closed its doors. Its plight served as a sign of the times, when many other Bridgeport structures faced a similar fate.

In the late 1990s, Bridgeport engaged Artspace, a not-for-profit real estate developer, to transform this urban landmark into Read’s Artspace, a live/work development. Artspace created 61 spacious live/work units on the upper floors and arts-friendly commercial space on the ground floor. Artspace’s $14.1 million conversion successfully leveraged government incentives and restored the 150,000-square-foot building to its original appearance. Broad interior spaces serve as informal galleries on each of the upper five floors; a 4,000 square foot public gallery on the ground floor houses more formal exhibitions. Bridgeport is experiencing a growing concentration of visual and performing artists, writers, and other creative professionals. The Read’s building redevelopment added an essential cultural amenity for downtown Bridgeport, and helped maintain the surging artist population.

Forstone also understands the importance of intensifying the downtown cultural and retail amenities. Part of their investment strategy was to confront this issue aggressively. In today’s economic climate, it is difficult to maintain income producing occupancy levels. Although facing difficult economic circumstances, Forstone carefully scrutinizes its tenant selection for its hospitality space. The profile of each tenant influences the long-term success of downtown Bridgeport, and, in return, the performance of all of Forstone’s Bridgeport properties. In January 2010, Forstone hired Robert Werhane, of Experience Hospitality LLC, to serve as a consultant charged with generating momentum and energy in downtown Bridgeport. Mr. Werhane, an expert in the hospitality industry, evaluated the strengths and weaknesses of the current downtown hospitality landscape and outlined the missing elements that are essential for improved performance. As leases expire, Forstone recruits retail tenants that fit the vision outlined by Mr. Werhane. By offering low rents, Forstone attracts targeted retail tenants. With the proper tenant mix, Forstone believes it

will eventually lead to increased revenues for all property types.

In 2009, Forstone purchased the downtown theatre, *Playhouse on the Green*, with the plan to generate more local entertainment. The theatre has served as the home to Bridgeport’s community theatre for nearly fifty years. In Mr. Werhane’s evaluation, he felt that the asset was underutilized. As a result, in addition to a community theatre schedule, Forstone added a live music series to the theatre’s 2010 summer schedule. Mr. Hall of Forstone states, “The idea behind adding the summer music series was to create some additional energy downtown. We understand that our ultimate vision for Bridgeport is not going to happen quickly. With a diligent commitment to our long-term strategy, our goal is to keep attracting additional people downtown each year. We have a two-level repositioning strategy. First, we look at how we can reposition each of our Bridgeport properties to improve their individual financial performance. The second level, which is of equal importance, is to reposition Bridgeport as a whole. We are continually looking for ways to create new energy and improve Bridgeport’s sense of place.

**Time Will Tell**

Demographic changes point to large increases in demand for more “livable” communities. Bridgeport, like so many other distressed urban areas, has the potential to provide residents with an improved quality of life, lower housing costs, and provide more affordable transportation options. With a firm and diligent commitment to their agenda outlined in B-Green 2020, the city of Bridgeport is positioning itself to take advantage of the increasing demand for TOD communities. Real estate companies like Forstone have recognized Bridgeport’s potential and have shown their faith in the city’s vision. The obstacles that are preventing equitable redevelopment of Bridgeport can be overcome and are being overcome. If public and private sectors continue to align their interests and maintain a deep commitment to their shared long-term goals, a “livable community” built on the models of sustainable real estate will emerge.