

METROTRENDS

A DEVELOPMENT INFORMATION SERVICE OF METROPLAN

CITY REGIONS AND THE METROPOLITAN ECONOMY

INTRODUCTION

This edition of METROTRENDS contains the edited remarks of Mr. Christopher Lineburger at the National Association of Regional Councils' 1989 annual meeting in Houston, TX. Mr. Lineburger's remarks cover a wide-range of topics from the changing shape of urban areas to the nature of metropolitan economies and the need for regional solutions to "city" problems that span multiple jurisdictions. I believe you will find them thought provoking - Editor

Mr. Lineburger is the managing partner and owner of Robert Charles Lessor & Co. He is a specialist in metropolitan and strategic planning for real estate development locally and in Japan and Europe. He has had articles published in the Wall Street Journal and the Los Angeles Times. His article "Urban Villages" was printed in the Atlantic Monthly Magazine. He is listed in "Who's Who in the West" and "Who's Who in the World"

I'd like to talk about regionalism and all of its implications, especially for the regional economy. The concept of regional governments has been around a long time. The reality appears to be no nearer than ever, or is it?

We can learn from history. Today we are in the middle of one of the largest, most radical changes in how we live and how we earn our living in history. We are seeing a radical new metropolitan trend that is affecting everything . . . how we live and work in our major and minor metropolitan areas. It's providing the new impetus for regional governments and the potential role for councils of governments, but you need to go back into history to really understand how big a change this is.

You need to look back into the 19th century for a comparable radical change in urban structure and economics. Remember that in the 18th century this country was primarily an agriculture society and we had mercantile trading towns, towns that today would not even make it on the map. Over the next 100 years as we industrialized and changed from an agricultural economy to an industrial economy, our cities radically

changed from 18th century towns to 19th century cities. The form, function and size of our urban areas completely altered.

A good example of this kind of change was in Philadelphia. In 1800 the population of Philadelphia was 68,000 souls - the largest town in the country. The size of the city - the city itself - fit between the Schuylkill and Delaware Rivers. You could walk the boundary of urbanized Philadelphia in about an hour. Summer homes of the wealthy were in Fairmont Park, which is today a part of Philadelphia and surrounded by slums. That economy was made up of traders, exporters, craftsmen, and, of course, government workers — federal, local and state.

The Philadelphia of 1900, after the industrial revolution, was a city of 1.3 million people, second largest in the country and a city in the more modern industrial sense — not a town. The size of that city was between 15 and 18 times the size of its former mercantile ancestors.

Today, we have shifted from an industrial economy to what we are told is a

post-industrial economy. I'm convinced that the term post-industrial means we don't know what the hell is going on, so we just call it "after the industrial economy." But as we shifted to the post-industrial economy, Philadelphia has also changed. While the city has not grown as fast as other major metro areas since 1900, its economy has shifted from the industrial to the post-industrial. The size of it — the physical size has also radically changed. It is now 10 to 15 times the size of its former industrial predecessor. It stretches 30 miles to the east of downtown Philadelphia and 60 miles to the west. It's a huge area. Much larger than anyone planned or foresaw.

Not only has it physically changed or expanded but the form — the very shape has changed as well. The former industrial city had a high density downtown surrounded by less dense industrial uses and worker housing, surrounded in turn by less dense middle class and upper class housing, usually radiating along transit lines.

Multiple Urban Cores

Today metropolitan areas are composed of many downtowns, or as we have come to call them "urban villages" or "urban cores", and each urban core is a region serving employment, retailing and entertainment and high density housing concentration, surrounded by low density single family housing.

The best example of this decentralizing urban core phenomenon is Los

Today we are in the middle of one of the largest, most radical changes in how we live and how we earn our living in history.

Angeles. Los Angeles today has 24 separate urban cores - 24 separate downtowns - and there are five more emerging on the periphery. There are many other examples. Atlanta, for instance, is certainly following this trend. In 1970, the urban boundary of Atlanta was 15 miles north of downtown. Basically, Atlanta was defined by the beltway that had recently been built.

Jim Rouse came along and built himself a little mall there in the perimeter center — 15 miles north of downtown and started a new urban core that is larger than downtown Atlanta, in a mere 15 years. Today the urban boundary of Atlanta is 50 miles to the north.

South Florida is another example of a regional economy that is changing and a structure that is growing beyond belief. The boundaries of the Miami metro area have been expanding phenomenally.

In the late 1970s, West Palm Beach, which is 80 miles north of downtown Miami, began to change from a resort, primary-home community to a bedroom community. Today West Palm Beach is a major region-serving core; and Stuart, which is a former resort community 120 miles north of downtown Miami, is now a bedroom community serving West Palm Beach.

Now, we know quite a bit about how this new urban core development trend is working. We know that there are three different categories of urban cores. These new downtowns, they all have different character.

Class A cores, which are predominantly Class A office cores occupied by professional firms, lawyers, CPA's or the first office of financial institutions, or the headquarters of large and small companies.

Class B cores - these again are primarily office users and business park users, and many other professional services, but they don't tend to be the lawyers and CPAs. They tend to be the architects and urban planners, the financial back office space where banks put their check processing, and paper processing plants and other large space users.

Class C cores - these are predominantly industrial and warehouse oriented.

We also know these evolved differ-

ently over time. There are different generations. We start with the first generation which is the original downtown.

The original downtown played a unique role in most metro areas. It is no longer the dominate core. It is merely first among equals. Sometimes not even first among equals. In downtown Los Angeles in 1960, they had 69 percent of all the office space in southern California. Today, it has 20 percent of the office space, and every year it is absorbing only ten percent of the new office space. So, it continues to shrink.

Every downtown in this country is facing the same process. Which is not to say oblivion, but certainly playing just one role among many in the metropolitan economy.

The office market continues to lose market share. Interestingly, downtown industrial continues to hold its own in most major metropolitan areas, that is absorbing as much new industrial space as it represents in the metro economy.

The second generation took place in the older suburban towns. Towns that were suburban in their nature 30 to 40 years ago and over the last 20 years or so took on a new role within the metropolitan area economy.

The second generation older suburban towns are also like the downtowns, no longer explosively growing. They are no longer taking more than their fair share of new market.

The third generation happens to have been the most controversial. These are the new downtown urban cores that are greenfield urban cores. Brand new. Sprung up from the swamps and bean

fields, from the deserts. They have been controversial because over the last 15 years they have been the fastest growing by far of all the downtowns. They have been experiencing very rapid growth and they are now maturing. They are beginning to add a bit more character.

As I say, this third generation core took years of explosive growth. Tysons Corner is only absorbing enough new office space to maintain its market share in the Washington, D.C. area. It is no longer growing faster than the rest of the market. In fact, it will probably grow slower than the rest of the market as traffic congestion and political opposition continues to grow.

The fourth generation is the core that is just now emerging. Just now being put on the map. This is a new suburban core that has just come into its own in the 80's. These are towns that you probably never heard of if you were not in that metropolitan area.

The big question for urban planners and developers is: Will there be a fifth generation? Will there be new development even further out? Further out than we see it today? With a kind of exploding geometric growth that we have seen in the urban areas?

Or will it turn back on itself because of a lack of infrastructure, political opposition? And now the fact that we have grown so far out, we have so much more land within the urban sphere of influence, that the land has, in fact, grown geometrically. To understand why this decentralized trend is working, why it is working like it is, we really need to understand metropolitan economics.

Metropolitan Economics

We need to understand how the metropolitan economy works. Unfortunately that field of economics does not exist. I have asked people in economics throughout the country, do you study metropolitan areas? Do you take a look at how the jobs are created and how things are shaped and formed?

They say no — they really don't because data is not collected on a metropolitan level, except by people such as councils of governments.

A lot of economists are studying the economy and how the economies work

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as to where the light is and not where it is needed. Where the light is, is not actually where the action is.

The Wall Street Journal had a front page story about a month ago, saying the world needs a new economic theory, a way to explain what is going on here. We don't understand it. All the theories developed back in the 30's and 40's are no longer explaining the 1980's and will not explain the 21st century.

I can guarantee you the new theory that the Wall Street Journal is calling for will include metropolitan economics. Because metropolitan economics are the foundation of the economy.

But going back to my ranting about the economics profession, no economist today can tell you the difference between any of the metropolitan areas. About how they work. Why they work. They can't tell you why Houston is different from Los Angeles. They can't tell you why Boston is different from Washington, as far as how the local economic system works.

Nobody has really understood Los Angeles's economy. Most people think that it is based on movies and the suntan business. That's not true at all, since Los Angeles is the world's largest manufacturing center. Los Angeles is also the second largest financial center in the country and probably in the 1990s will surpass New York.

You don't understand that because metropolitan economics does not exist.

An old friend of all of ours, Jane Jacobs, in the front piece of her book, *The Economy of Cities*, quoted the Greek philosopher Herodotus, "I will tell the story as I go along of small cities, no less than great. Most of those which were great are small today and those which in my own life time have grown to greatness, were small enough in the old days."

How did Ms. Jacobs explain the difference between great and small metropolitan areas? She said the metropolitan economies which were diversified, that innovated constantly, and exported — were those that grew.

As our economy goes global, there is no longer a national economy. We are a collection of separate and distinct metropolitan economies.

"I will tell the story as I go along of small cities, no less than great. Most of those which were great are small today and those which in my own life time have grown to greatness, were small enough in the old days."

Herodotus

In all probability, the next recession will not be a national recession, but a global recession. Or it will be a series of rolling regional recessions, similar to what is taking place in Houston and Denver.

You may not realize that southern California is the second largest oil center in the country. The second largest concentration of oil production and second largest concentration of oil related jobs. Houston's economy tanked out in the '80's. Los Angeles didn't feel a ripple from the oil recession. That was because of its innovativeness and because of its diversity and because of the tremendous export economy.

How Do Regional Economies Work?

So what do we understand today about metropolitan economics?

□ **One thing we know** is that there are three different types of jobs in the metropolitan economy. First: local-serving jobs. Second are regional-serving jobs. Third are export-oriented jobs.

Let's take Los Angeles as a good example. In Los Angeles for every 100 people, 50 are working. They have what they call a 50 percent employment population/job ratio. Half of those jobs are in local-serving employment. These are clerks, local-serving lawyers, policemen, firemen, Indian chiefs, etc. — all the local-serving people who are essential for a bedroom community to work.

The other half are regional export jobs, and these are the jobs which can locate almost any place in the metropolitan area. These are the jobs that are reshaping our metropolitan areas.

Another good example is Washington, D.C. — a very fast growing metropolitan area, and not because of the Federal Government — or not directly. It has for every 100 people, 62 jobs. 62 percent of their total population is out there working away. You then contrast that to Baltimore, the slower growing area, only 53 percent of their work force is out there working.

The difference between 53 percent and 62 percent — that 9 percent difference represents a lot of jobs — all in export-oriented employment. That export-oriented employment is the reason that Washington continues to explode with growth and Baltimore continues to bump along.

□ **The second thing we know**, as I mentioned earlier, is that strength is in diversity and the ability to create and recreate new work constantly. The strength of the local metropolitan economy is not in large manufacturing plants that cannot change at all.

For example, Pittsburgh is the home of more Fortune 500 companies than Los Angeles could ever dream of, and when they began to change from the industrial to the post-industrial Pittsburgh was on its back trying valiantly to adjust itself. By now, it has done so.

Los Angeles is an economy filled with mid-size companies and entrepreneurs. There are very few Fortune 500 company headquarters there. It has this incredible ability to create and recreate the company and the business and the jobs. That is the difference between the strong metropolitan economy and one that is vulnerable to the downturn.

□ **The third thing that we know** is that jobs follow housing. But there is a lag in how jobs follow housing. That lag causes the tremendous traffic congestion that we see during the late '70's and '80's. Orange County in southern California is a good example.

In 1960, with a population base of several hundred thousand people, Orange County was just beginning to explode. By 1980 they had doubled their population, but the number of jobs over that period had increased over 142 percent. By 1980 the population had gone up by about a 1/3; the jobs doubled. By 1988, the population was beginning to slow down — only increased by 15

percent, about 2 percent per year. The jobs increased by 60 percent.

A phenomenal demonstration that the people went there first to live and the jobs followed. But as I say, the traffic congestion that resulted from that mismatch of jobs and employment was tremendous and has caused Orange County to have the worst traffic congestion in California.

❑ **The fourth thing we know** is that Class A & B cores — those office dominated cores that are so controversial — such as the Galleria, Tysons Corner and Newport Beach — that those Class A & B cores developed adjacent to white upper class housing, generally 180 degrees away from any kind of minority housing areas.

Orange County is generally a white upper-middle class community and it has caused significant social issues, which we are now only paying the price for.

❑ **The fifth thing we know** about metropolitan economics is that these locations — as they move from this industrial base to a post-industrial base, have caused significant traffic congestion. That traffic congestion has led to growth of anti-growth movements.

The reason for the traffic congestion is that we didn't know what was happening to us. We didn't understand where the traffic was going to be; we did not anticipate it; we didn't plan for it.

People are really very upset about the situation. The dislocation caused by traffic in general has made the community groups more and more equal partners in the real estate development process.

I was in Boston about a month ago talking to a developer just off Harvard Square. It took him five years to negotiate with local community groups. His wife counted up how many meetings it took him over the course of those five years — literally 365 night meetings to negotiate the ability to build.

It took them 18 months to build, and it filled up right away. Very successful project, but that is very typical. We are becoming more and more like Europe in this regard. That we have more and more government process that any

sort of development project has to go through.

What the upshot of it is, is that we are going to see larger and larger development companies who can afford to wait. We are going to see fewer and fewer smaller development companies who need to turn a project around quickly.

❑ **The sixth thing we know** about metropolitan economics is that land will no longer be cheap. We have always been a country of very cheap land, when you compare it to the rest of the industrialized world. Because of the political and community opposition to development, land prices have been bid up tremendously, both commercial and residential.

The old rule of thumb for housing was that the improved land under the house should cost about 20 percent of the selling price. Today, in most mid-western cities, it's close to 1/3 to 40 percent; in the northeast, the land value underneath the house is about 50 percent; in California it's 70 percent; in Europe it's 70 to 80 percent and in Japan it's over 90 percent. That's why you never see anything old in Japan; when it outlives its economic usefulness, it's bulldozed, and something new is put in its place. The land is the valuable asset. Affordability, of course, has started to go down, as far as people being able to afford housing.

We'll see more rental as a percent of total households, particularly in the metropolitan households. Public policy issues need to be more and more concerned about affordable housing. Especially near Class A and Class B employment centers to try to cut downtown traffic congestion. Because if we don't, the traffic congestion will only get worse.

Regional Government?

Given the changing metropolitan function and form, what will the council of governments do? A lot more. A lot more. The world, in particular here in the states, is moving toward regional governments. It's inevitable.

I know you have all heard this before. It's all been talked about for decades, and I could not say this with much conviction even two years ago. The silver lining in the dark cloud of fog

hanging over southern California is that regional governments are being pushed, pushed and pushed.

The Southern California Association of Governments and the South Coast Air Quality Management Districts are tackling issues that all the local governments, which include five counties and 180 different cities, do not want to handle. It's too hot a political issue to handle, and they are not capable of handling the issues such as traffic congestion and air pollution. The COG needs to address those regional issues that no other governmental level can take on or, quite honestly, politically don't want to touch.

The second thing the council of government can do is to look and understand that a second level of government, besides the regional level, is missing out there. The urban core level of government. Consider Perimeter Center north of Atlanta. They say the Perimeter Center now has more or as much employment as downtown Atlanta. Yet, it is split between two counties, and there is no municipal government that looks at how it is growing and the problem or the issues that spring up from being the largest employment center in the entire metro area. There is really no one in charge.

Another good example is Tysons Corner in Virginia outside of Washington, D.C. You look at all the maps of the Washington, D.C. area and in big bold letters is Alexandria and Arlington and Vienna and Fairfax. All the towns that have become incorporated in northern Virginia. But then you look at the largest employment area in all of Virginia and in tiny little letters, Tyson, Virginia....20 million square feet of office space and only the distant county government is looking at the traffic congestion issue and the urban planning issues of Tysons Corner. Nobody there — nobody that is actually in Tysons Corner is taking a look at it.

As a result, we have seen developers and corporations forming associations in these areas. Many times they are transportation development associations to deal with traffic, but they evolve into a new level of government. Transportation management associations are now dealing with things such as security, and day care. Issues that used to be the province of local governments. Now it's being taken on by these public/private partnerships.

... COGs should take more forceful steps in filling in these two levels of government that are missing - both the regional level and the urban core level.

Council of governments should be on the forefront of research and knowledge about how metropolitan economics work.

COGs should also be the focal point for the issue of growth management in our metropolitan areas.

I'd like to conclude by saying that COGs should take more forceful steps in filling in these two levels of government that are missing - both the regional level and the urban core level.

Councils of government should be on the forefront of research and knowledge about how metropolitan economics work. We need a consistent methodology and process to calculate GMP - gross metropolitan product - on a periodic basis.

Understand what makes successful economies work, and for those that are not so successful - how can we help them out of the doldrums?

COGs should also be the focal point for the issues of growth management in our metropolitan areas. Right now, the state governments are taking the lead - Vermont, New Jersey, Oregon, Georgia — all of these state legislatures are taking the lead on growth management.

Why not the COGs? The COGs are where they belong. There is no reason to involve rural legislators from other metropolitan areas to deal with growth management issues in your metropolitan area. The opportunity, I feel, is right for more influential and powerful roles for the COGs in this country.

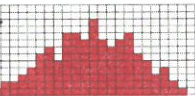
All the trends are going in the right direction. Not taking hold of this opportunity would be like snatching defeat from the jaws of victory.

These comments of Mr. Christopher Lineburger were recorded by the National Association of Regional Councils in May, 1989 and edited for this publication by Metroplan. Metroplan believes this edited version of Mr. Lineburger's comments is a fair representation of his full presentation.

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