Excess commercial and residential real estate assets have turned into liabilities, dragging down homeowners, developers, neighborhoods, cities, and our entire financial system. Straightforward incentives would encourage redeployment of this unproductive capital out of vacant or underutilized real estate into land banks and other partnerships. These incentives would unleash entrepreneurs to remake our cities with immediate visible improvements, create jobs, unlock bad debt now frozen in our banks, and would position our country for sustainable future development.
Executive Summary

Excess commercial and residential real estate assets have turned into liabilities, dragging down homeowners, developers, neighborhoods, cities, and our entire financial system. As a result of major financial incentives, marketing, and creative underwriting, real estate debt outstanding from 2000 through 2008 increased 131% to $14.5 trillion.

This massive real estate investment, combined with Internet-related secular changes, has left the United States with a substantial oversupply of residential and commercial real estate assets. These excess assets have turned into liabilities, dragging down homeowners, developers, neighborhoods, cities and even our entire financial system.

As a nation, we need to establish a set of incentives that would encourage unproductive capital to be redeployed out of vacant and underutilized real estate developments into land banks and other partnerships. The incentives need not require major appropriations from Congress, but could include straightforward changes in existing policy. Some examples include accounting changes for banks, FDIC mandate change, Community Reinvestment Act modifications, and expansion of conservation tax credits.

These incentives would encourage surplus property to be “banked” – removed from the market and converted to a combination of green space plus adjacent land held for future redevelopment when the real estate market recovers. As Georgia Tech Redfields to Greenfields research is proving, this conversion would bring real estate supply and demand in better balance, thus stabilizing values of nearby properties, and the creation of new parks would boost values of both nearby properties and the “banked” land when it is developed.

Conversion would spur business activity, create jobs, and address the real estate problem at its source – oversupply. And its economic multiplier effect would likely be a combination of the 1.5 x typical of infrastructure spending and 10 x leverage from unlocking banks’ reserves.

In summary, a coordinated rollout of appropriate land banking incentives would unleash innovators and entrepreneurs to restructure our cities with immediate visible improvements, create jobs, unlock bad debt now frozen in our banks, and position our country for more sustainable and appropriate real estate development.

America’s Real Estate Problem

The total value of U.S. real estate has declined over 25% since 2006, by over $10 trillion from the peak value of $42 trillion, according to the Federal Reserve. By other measures the drop is worse – homes in the 20 Case-Shiller metros are down 33%, and Moody’s index of commercial real estate is down 45%. (Given thin transaction volume, true market prices may be even lower.)
Commercial and residential mortgage debt outstanding grew 131% ($6.3 trillion to $14.5 trillion) from 2000 through 2008. Risky loans, including adjustable rate mortgages with low teaser rates, no-documentation loans ("liar loans"), and subprime, interest-only, and even negative amortization loans, were marketed, securitized, and sold throughout the world.

This widely available, low-cost financing caused a major spike in construction. Now, as a result of the oversupply, over 14% of all single family homes are vacant, which puts substantial downward pressure on home prices.

Home prices have already declined 33% from the peak, according to Case-Shiller data. As of March 2011, average home prices have fallen through the trough levels of April 2009, and price erosion continues due to distressed selling and foreclosures. CoreLogic estimates over 23% of home mortgages are under water nationwide, 2/3 in Nevada, and nearly 1/2 in Arizona, Florida, Michigan and California. In 2010, banks seized over 1 million homes for the first time.
On the commercial side, retail space doubled between 1995 and 2005, yet inflation-adjusted retail spending increased only 12%. Retail vacancies are now 9%, equivalent to over 80,000 acres of empty stores and parking lots, and up 42% from 2006.

Internet shopping continues to take share of the retail market from brick-and-mortar stores. (As one example, Amazon’s sales are on track to exceed the sales of Sears/Kmart by 2011!) On-line shopping accounts for 4.5% of all shopping today, but is growing at 15% annually. If this trend continues, 10% of all retail space will be empty by 2020, leaving over 150,000 acres empty.
These oversupply issues are especially acute in some markets. In Atlanta, 30% of the mortgages are underwater, retail vacancies are over 13%, and the vacant office space is the equivalent of 24 empty 55-story Bank of America Plazas, the largest office building in the Southeast. In Detroit, 50,000 home lots are been taken over by the city.

Just as important as the price declines, there is a major lack of liquidity in these real estate markets. On the commercial side, transactions in Los Angeles are down 85%, in Houston down 80%, and Atlanta down 90%. On the residential side, the number of new home sales is the lowest in over 50 years, and used home sales remain low amid distortions from distressed sales, foreclosures, and temporary tax credits. Zillow estimates that 28.4% of single-family homes with mortgages are under water nationwide, and some metro areas have over half.

<table>
<thead>
<tr>
<th>Year Over Year Change</th>
<th>Price Change From Peak</th>
<th>Negative Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phoenix, Ariz.</td>
<td>-11.2%</td>
<td>-55.3%</td>
</tr>
<tr>
<td>Tampa, Fla.</td>
<td>-10.9%</td>
<td>-50.6%</td>
</tr>
<tr>
<td>Atlanta, Ga.</td>
<td>-17.3%</td>
<td>-33.7%</td>
</tr>
<tr>
<td>Sacramento, Calif.</td>
<td>-11.0%</td>
<td>-50.1%</td>
</tr>
<tr>
<td>Riverside, Calif.</td>
<td>-3.2%</td>
<td>-53.8%</td>
</tr>
<tr>
<td>Miami-Fort Lauderdale, Fla.</td>
<td>-12.8%</td>
<td>-55.4%</td>
</tr>
<tr>
<td>Minneapolis-St. Paul, Minn.</td>
<td>-15.1%</td>
<td>-35.6%</td>
</tr>
<tr>
<td>Chicago, Ill.</td>
<td>-13.8%</td>
<td>-38.1%</td>
</tr>
<tr>
<td>Cleveland, Ohio</td>
<td>-9.1%</td>
<td>-24.7%</td>
</tr>
<tr>
<td>Denver, Colo.</td>
<td>-6.6%</td>
<td>-17.2%</td>
</tr>
<tr>
<td>Detroit, Mich.</td>
<td>-17.3%</td>
<td>-55.5%</td>
</tr>
<tr>
<td>Portland, Ore.</td>
<td>-12.1%</td>
<td>-30.6%</td>
</tr>
<tr>
<td>Seattle, Wash.</td>
<td>-11.7%</td>
<td>-32.1%</td>
</tr>
</tbody>
</table>

So, in spite of Federal Reserve actions to support this asset class with low cost money and quantitative easing programs, real estate values continue to drop, both lenders and borrowers are at major risk from defaults, and liquidity has declined significantly.

**Current Trends Are Not Encouraging**

Recent news and data indicate that the real estate problem is not healing on its own. The Federal Reserve Open Market Committee statements continue to report “investment in nonresidential structures is still weak, and the housing sector continues to be depressed.”

The excess of shopping malls means many properties are selling cheaply if they are selling at all. Many weaker malls are unneeded in their current form.

*The decision to sell “could suggest reinvestment in these properties may not be justified, given their dimmer futures.”... A discount might be necessary partly because the properties “may need reimagining in some fashion” [according to Benjamin Yang of KBW].*

—Wall Street Journal, 4/20/11
Home prices did bounce between mid-2009 and mid-2010, but have resumed falling and are now below trough levels nationally.

*Increases in foreclosures are adding to a growing inventory of unsold homes, which may further depress prices and dissuade potential buyers.*
–Bloomberg, 4/26/11

Both residential and commercial lenders are facing default by heavily underwater borrowers.

*[In Las Vegas] the wave of defaults that began with subprime borrowers and the unemployed has spread to upscale homeowners who see no point of staying even if they can afford to. ... In Nevada, 23% of delinquent borrowers said they “strategically defaulted,” or walked away from their homes by choice rather than necessity, according to a January report by the Nevada Association of Realtors.*
–Bloomberg, 4/26/11

Prices of homes have dropped more in the past 5 years than they did during the Great Depression in the 1930s. This unprecedented drop creates unprecedented dangers.

*I expected the numbers to be bad, but this is becoming nerve-wracking. ... You begin to think, “maybe this will be worse than you thought” and it becomes a self-reinforcing cycle.*
–Mark Zandi, chief economist, Moody’s Analytics, 3/24/2011

**The Root Cause: Too Much Capital Has Been Invested in Real Estate**

Between 2000 and 2008, $8.2 trillion of commercial and residential mortgage debt was created, 131% more than total mortgage debt outstanding in 2000. These excessive investments have caused massive overbuilding in residential and commercial real estate.

We are left with an excess of residential and commercial developments, much of which is underutilized or vacant. These excess and vacant buildings are dragging down neighborhoods, local businesses and responsible homeowners and draining resources from our economy. They need to be heated and cooled, costing energy dollars; they need to be protected, using police and fire resources; they need to be maintained, utilizing workers who could be allocated to other projects; they need to be financed, costing capital that would be freed for other investments. As their value drops, they depress the value of surrounding property.

Since it was financed with *debt*, the bursting of the real estate bubble almost brought down the financial system. The Treasury, Federal Reserve and FDIC committed over $11 trillion in capital to backstop real estate and related paper. In addition, the Federal Reserve policies of 0% interest, QE 1, and QE 2 have not stopped the decline in real estate values.
Yet, there is no program to address the excess developed real estate “on the ground.” The U.S. economy will never fully recover until capital can be withdrawn from U.S. real estate and reinvested in more productivity generating enterprises.

Chart 6. Despite Extraordinary Measures, Home Prices Are Still Falling

A Way Forward: Attack the Source of the Problem

Our country’s real estate needs to be restructured. We need a program that provides incentives to bring real estate development supply and demand back in balance – a program on a scale similar to that of the incentives which created the oversupply during most of the last decade.

A major real estate restructuring program encouraging land banks and green space could address the excess real estate assets “on the ground”. Abandoned land, vacant lots, and distressed properties present an opportunity – land that could be tapped for sustainable redevelopment that begins with green space.

Capital would be available to buy underutilized retail space and vacant homes providing much needed liquidity in this sector. Homeowners wishing to "cash out" of their housing investment would have new buyers for their assets. Excess commercial real estate could find alternative uses.

Construction jobs would be re-ignited as demolition work and landscape architecture would turn into growth parts of the economy. With more parks for exercise and outdoor play both children and adults would lead healthier lives. Air and water pollution would be reduced. And cities and municipalities would have a higher quality of life to attract investment. It would be a stimulus citizens could see and enjoy.
An Example of “Banking” Surplus Real Estate

Surplus property can be removed from the market and “banked” – converted to a combination of green space plus adjacent land held for future redevelopment. As an example, consider this underutilized site in Miami at NW 167th St and NW 27th Ave near the Palmetto Expressway.

This site is located along the proposed extension of the Metrorail corridor. In Phase 1 it could be restructured as a transit station, a park, and land held for future development.

As the real estate market recovers, in Phase 2 the “banked” acreage can be developed as a sustainable mixed-use project.

The restructuring creates new jobs, an improved tax base, and a source of funding for the long term operation and maintenance of the park.
Georgia Tech Studies Demonstrate Specific Impacts in 11 Cities

Georgia Tech is evaluating the potential impacts of a real estate restructuring program in 11 US cities including Atlanta, Cleveland, Detroit, Denver, Houston, Los Angeles, Miami, Philadelphia, and Phoenix. These impacts were developed in partnership with a university partner in each city, and with local business leaders and community stakeholders. Financial models used by the Department of Interior and Federal Reserve were used to quantify impacts, in addition to studies performed for the cities by independent architecture and engineering firms. Data from city master plans, green space plans, transportation reports, and urban infrastructure redevelopment programs were used as sources in addition to peer reviewed published papers. Commercial databases including CoStar and numerous GIS databases were used to develop the city reports.

Georgia Tech performed a “what if” study of Atlanta; what if $5 billion in financing or financial incentives was spent on a land banking program in Atlanta. The study concluded that 2,850 acres of green space could be created within the I-285 Perimeter (equivalent of over 15 Piedmont Parks) and 50% of the land currently for sale outside the Perimeter would be removed from the market to create over nearly 13,000 acres of green space. Atlanta real estate market would be transformed. The proposed projects are technically feasible and shovel-ready, and would immediately create jobs. Initial research suggests the adjacent lands would benefit tremendously, and the projects are scalable on a national basis. Current Atlanta green space would be increased fivefold.

Georgia leads the country in bank failures with 59 since 2008. Metro-Atlanta, a growth engine for the Southeast, has lost over 42,000 construction jobs and the real estate transaction volume has declined by 95% since the peak.

Cleveland has lost over 50% of its population since 1960 and, with over 20,000 vacant lots, is in need of jobs and rapid revitalization. A real estate restructuring program could remove over 1,850 acres of distressed real estate from the market, create over 120 miles of interconnected greenways, and transform Cleveland’s neighborhoods and waterfront.

In Detroit, preliminary findings from an industrial land inventory indicate over 11,000 acres of distressed real estate could be converted to create “Opportunity Corridors” that link job site locations with housing and transportation. Skill-based jobs exist in water and wastewater technology development, focused on tools to conserve, treat, measure, monitor, reuse, recycle, and smartly manage water. Labor based jobs can be obtained through the expansion and attraction efforts aimed at water intensive industries such as agriculture, food, and beverage processing and through infrastructure repairs and upgrades.

The City of Denver, in collaboration with the Trust for Public Land, is acquiring red field sites along the South Platte River Corridor to transform Denver’s urban core. These investments and implementation of a robust real estate restructuring program could add more than
30,000 new jobs to the region and remove over 6,600 acres of distressed real estate from the market. The University of Colorado-Denver reported that such a program could create a $3.98 billion economic impact.

The Houston Parks Board has identified over 10,000 acres that could be restructured. Measureable results from the parkland acquisitions include increased property values for neighborhoods, creation of recreational opportunities, reduction of urban flooding, ecosystem protection, and economic impacts by the proliferation of businesses and homes where green space is located. Texas A&M and the Houston Parks Board report that scientific studies measuring the impacts of relatively large parks consistently show that approximately 75% of the premium they generate is likely to accrue to properties located within 500 feet of the park. In addition, a recent study projects that green space acquisition and trail development along 300 miles of Houston's bayous could have an annual benefit of $500 million to $1 billion.

The City of Los Angeles has proposed over 200 projects with the city as part of the LA River revitalization. These projects reposition non-performing real estate to create walkable, bikeable connections to the river, incorporate landscape filters to clean storm water runoff, and link users to small businesses and job sites. Over 32 miles of river can be reclaimed to help restore the quality of life in surrounding communities and encourage economic prosperity.

Miami’s economy has been devastated by the real estate bust and the prolonged recession. A real estate restructuring program provides a framework for Miami to execute the City Master Plan today. An estimated 1,625 acres of additional parkland could be created that would link two U.S. National Parks (Everglades and Biscayne Bay). The tax base could be increased by an estimated $58.8 million per year by converting 312 acres of non-performing real estate to transit oriented development. Further, a real estate restructuring program in Miami could create 14,375 jobs per year for 5 years.

In Philadelphia, research conducted by the University of Pennsylvania and city businesses estimates a $4.3 billion impact through the implementation of a real estate restructuring program, creating approximately 113,000 jobs. Over 4,650 acres of distressed property could be removed from the market and restored to attract future economic development.

In Phoenix, nearly 3,000 acres of non-performing real estate could be removed from the market through real estate restructuring investments, creating 49,100 jobs and an estimated $5.9 billion increase in value in industry production. Over $1.8 billion of this impact is in labor income. Phoenix trails only Las Vegas in the decline in housing values (53% since 2006); a real estate restructuring program can help restore liquidity to the real estate markets and put Arizona back to work.
How Businesses Can Participate

A vacant 100,000 sq. ft. former Kmart department store on a 9.8 acre tract in the Fletcher Square area of Los Angeles has been sitting idle for over 2 years. One plan is to convert it to urban agriculture distribution center. A portion of this parcel could be donated under a conservation tax credit program, restoring needed green space.

In New York City, the Central Park Conservancy was founded in 1980 and has become a model for public-private partnership.

In general, banks and other corporations can review their own holdings and work with federal departments and local and state governments to realize tax benefits by contributing land to be held as green space.

The Multiplier Effect of Addressing the Core Problem

Don Rismiller, chief economist at Strategas Research Partners, has examined the impact of such a real estate restructuring program.

With home prices again weakening and vacancy rates in commercial properties still elevated, it’s tough to say that the problem created by real estate leverage has been “fixed”. Worth considering now are programs that directly address the core physical problem – the excesses created in real estate. As such, programs focused on purchasing and reconstituting distressed real estate are important.

There are several economic channels worth considering when thinking about the benefits of such an approach: 1) what’s the direct multiplier from creating jobs that give workers income to spend, etc., 2) the monetary effect of freeing up the “zombie” banks to start lending again, and 3) the removal of a particular overhang on confidence and the U.S. economy from the downside risk to real estate prices.

In this sense, solving the “physical” problem rather than the “financial” problem can make sense. Phrases such as “extend and pretend” for bank real estate loans are again making headlines, which is inherently a “kick the can down the road” strategy rather than a solution.

The direct fiscal multiplier for infrastructure spending is typically in the 1.5X range, which would be substantial, adding roughly 50% of “bang for the buck” (so a $230 billion fund could function as a larger $345 billion fund). These numbers are rough
since they are generally estimated from large scale macro models, which are by
construction very sensitive to the inputs and assumptions used.

However, policies that help the banking system have an additional benefit in this current
circumstance. The monetary effects are conceptually easier to think about, since the
“money multiplier” is usually considered $m = 1/RR$ where RR is the reserve requirement.
With a banking reserve requirement of 10%, we would typically think of a money
multiplier of 10 times. That is, bank lending can multiply narrow money into broad
money by up to a factor of 10, i.e., an extremely powerful mechanism.

There are already $1$ trillion of *excess* reserves in the system, so right now it’s like
we’ve dropped money out of helicopters and it has all fallen into bank vaults.
Excess reserves get into the economy through bank lending – what “reserves” do is
reserve against bank lending (which has not been growing). Freeing up the banks (which
are behaving like “zombies” now in part because of the potential for additional asset
impairment) to return to “normal” would open the door to this liquidity.

So, the biggest “multiplier” value of the policy would probably be freeing up bank
lending (which has remained anemic). Then the reserves already created could help
the economy, with a monetary multiplier of 10 times. Efforts to get capital out of
unnecessary real estate – and into productive investments – can make use of policies
already in place to create an additional economic benefit, i.e., a “two-fer” policy.

He concludes:

It has been possible to design purely financial solutions that addressed key concerns
during the financial crisis. But as we have moved beyond the 2008 emergency, future
policies should likely be aimed at creating a legitimate solution to remaining
problems. The temptation with purely financial policies is the classic issue of relative
pricing, i.e., there’s some uncertainty associated with how to mark assets (other than to
base prices off “near-by” assets). This uncertainty would likely be eliminated if there
were actual transactions (i.e., properties were purchased), which would have the added
benefit of providing an underpinning for confidence.

**Conclusion**

Excess commercial and residential real estate assets have turned into liabilities, dragging down
homeowners, developers, neighborhoods, cities, and our entire financial system.

Straightforward incentives would encourage redeployment of this unproductive capital out of
vacant or underutilized real estate into land banks and other public-private partnerships to create
productive green space and stimulate local redevelopment.

Research at Georgia Tech has demonstrated the positive impacts of a real estate restructuring
plan in 11 cities across the country. Such a plan, addressing the root cause of the real estate
crisis, would have strong multiplier effects, and would leverage private entrepreneurial capital. Many proposed incentives would require no appropriations from Congress, only policy changes in various departments and agencies.

These incentives would unleash opportunities for innovators and entrepreneurs to remake our cities with immediate visible improvements, create jobs, unlock bad debt now frozen in our banks, and would position our country for sustainable future development.
References and Further Reading


Cities and towns across the country are the default owners of hundreds of thousands of abandoned and derelict single-family houses, apartment buildings and factories. These places are a blight on our communities. The federal government should reimburse cities and towns who hire people from the unemployment rolls to tear down these structures, clean up the properties and, if there is no immediate buyer for them, to turn them into green spaces.


[Greenspan] did have one suggestion about the housing crisis, but it was a rhetorical flourish befitting his supply-and-demand mindset: He suggested that there was too much housing supply and that the only way to really fix the problem would be for the government to buy up vacant homes and burn them. After the call, Paulson, with a laugh, told his staff: “That's not a bad idea. But we're not going to buy up all the housing supply and destroy it.”

“Olmsted’s ideals could help solve our real estate mess” by Michael Messner. Washington Post, Jan. 6, 2011. Excerpt:

Converting underused commercial real estate to green space and “banked” land would be transformational. It would create jobs, strengthen the banking system to encourage lending and stabilize property values so that real estate owners would be ready to spend again. Most important, lush new parks would enhance neighborhoods across the country.

(www.washingtonpost.com/wp-dyn/content/article/2011/01/05/AR2011010504395.html)