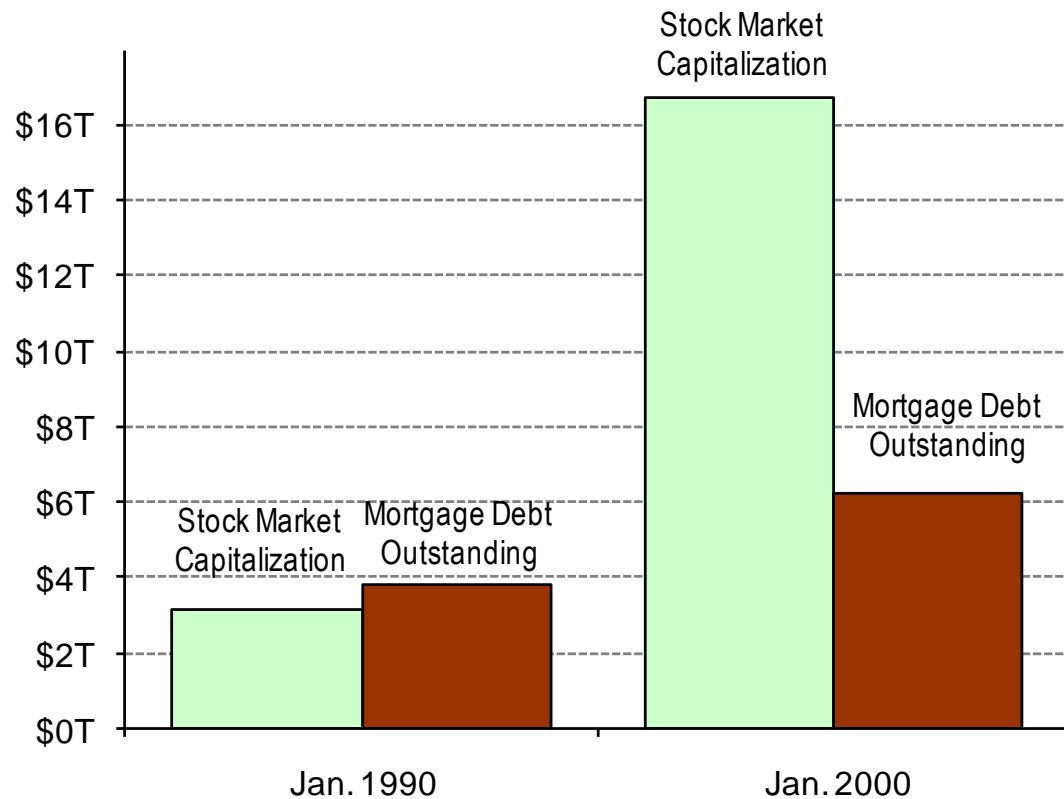




Addressing Excess Developed Real Estate with Parks

Michael Messner
February 1, 2010

1990s: Stock market capitalization up \$13 trillion, mortgage debt up only \$2 trillion



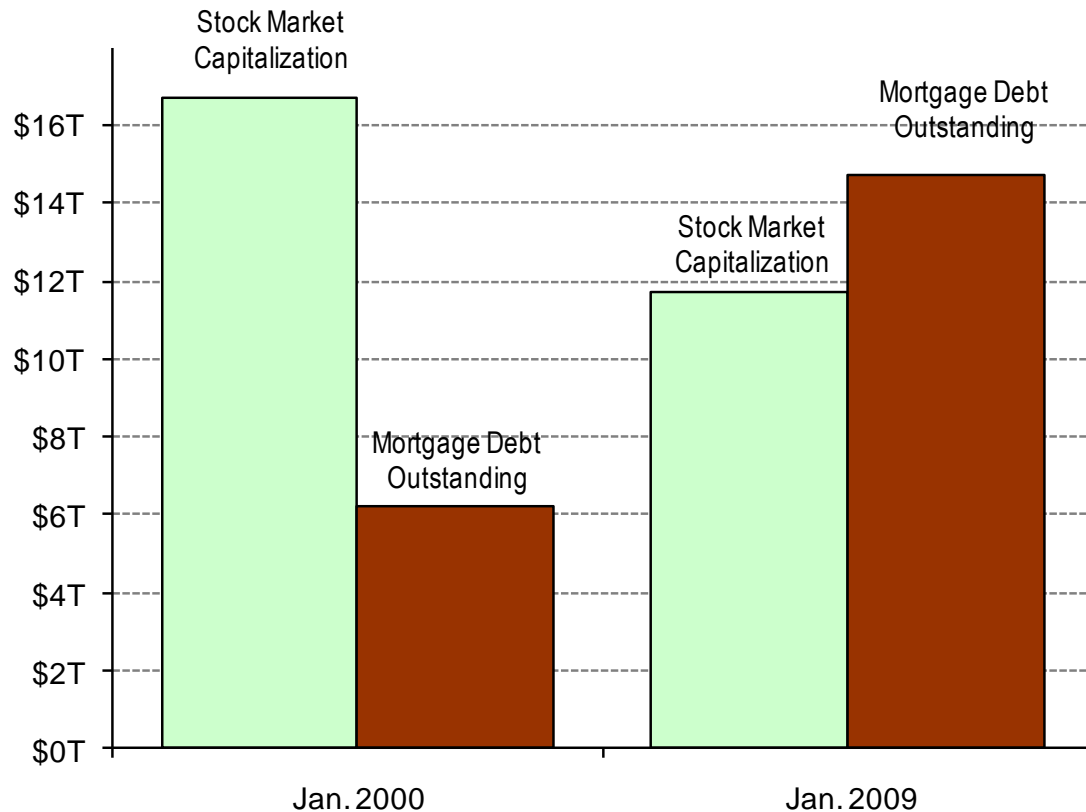
Includes home, commercial, multifamily residential, and farm mortgage debt

1990–2000: Technology-led productivity

- Disk drive costs: \$230,000/GB in 1980 – \$.30/GB in 2000
- 50,000 PCs shipped in 1980 – 125,000,000 in 2001
- 1980: no cell phones – 2000: 50% penetration
- 1990: no Internet – 2000: 50% penetration
- US railroads' revenue ton-miles per employee: 3.4 million in 1990 – 6 million in 2000, a 76% improvement

1990's: S & P 500 increased 435%

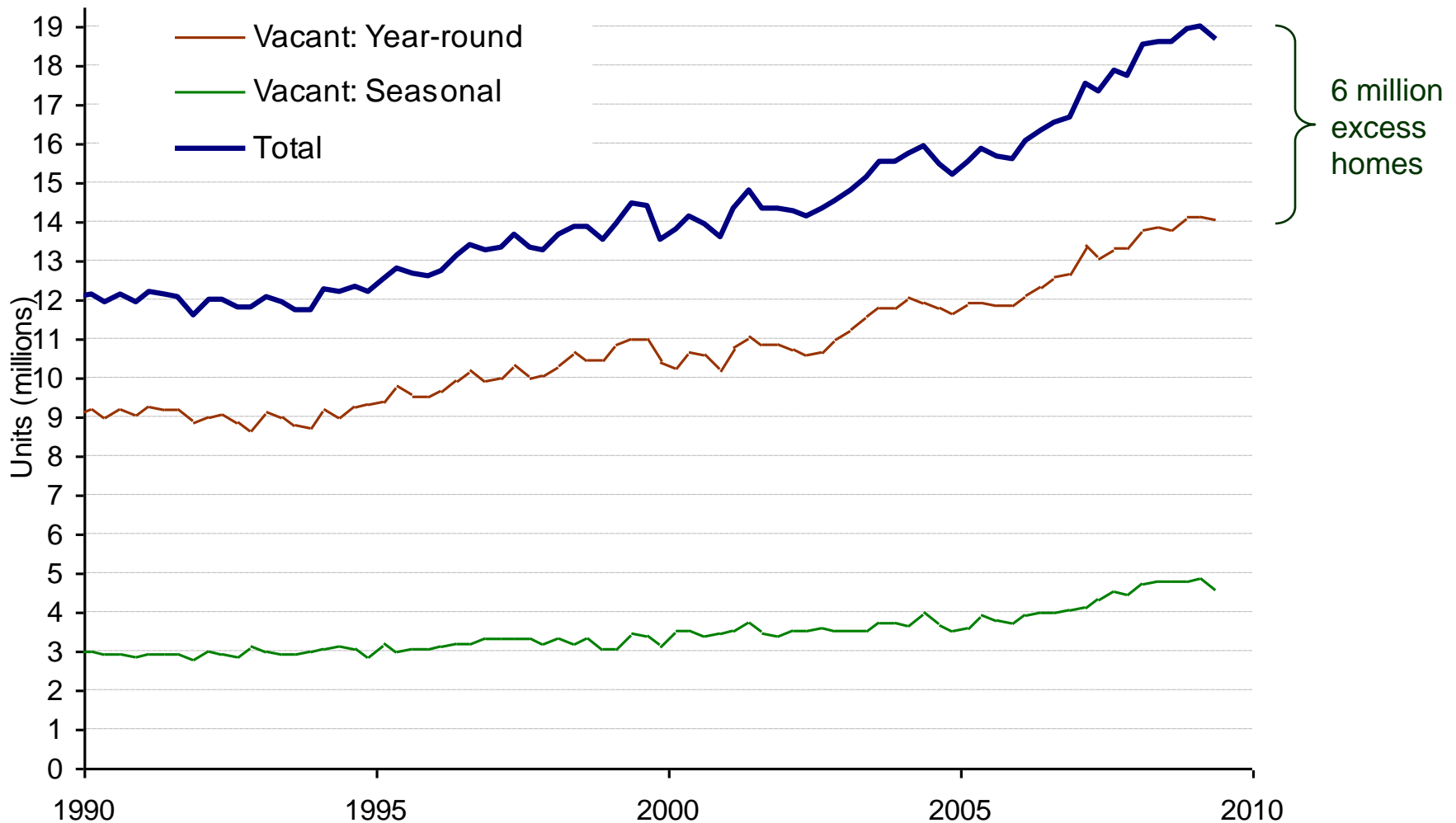
After equities peaked in 2000, financial markets turned to creating mortgage debt, which increased \$8.5 trillion in 9 years or 137% while the stock market declined 30%



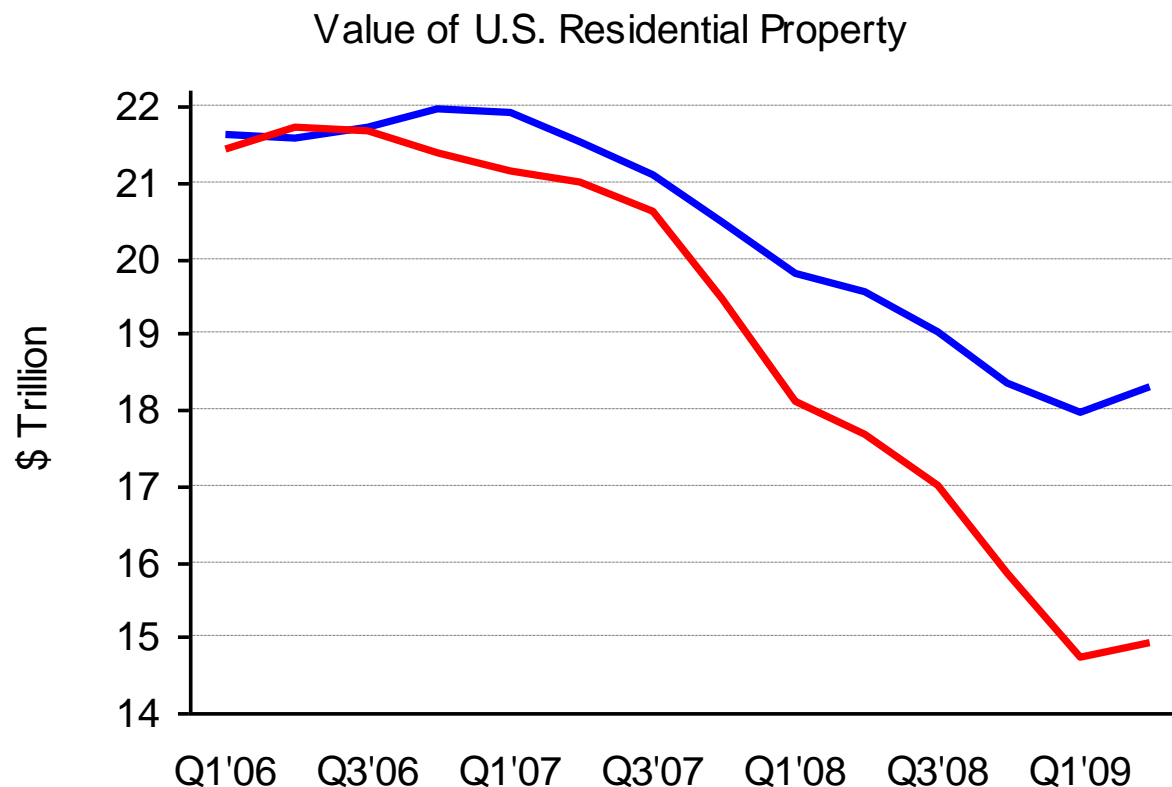
Includes home, commercial, multifamily residential, and farm mortgage debt

We built 500,000 excess homes per year in the 2000's

There are now 19 million vacant homes – 14.5% of all units



Residential properties have lost \$4 to \$7 trillion since the peak due to excess supply



Note: Stabilization of prices was supported by government policies –

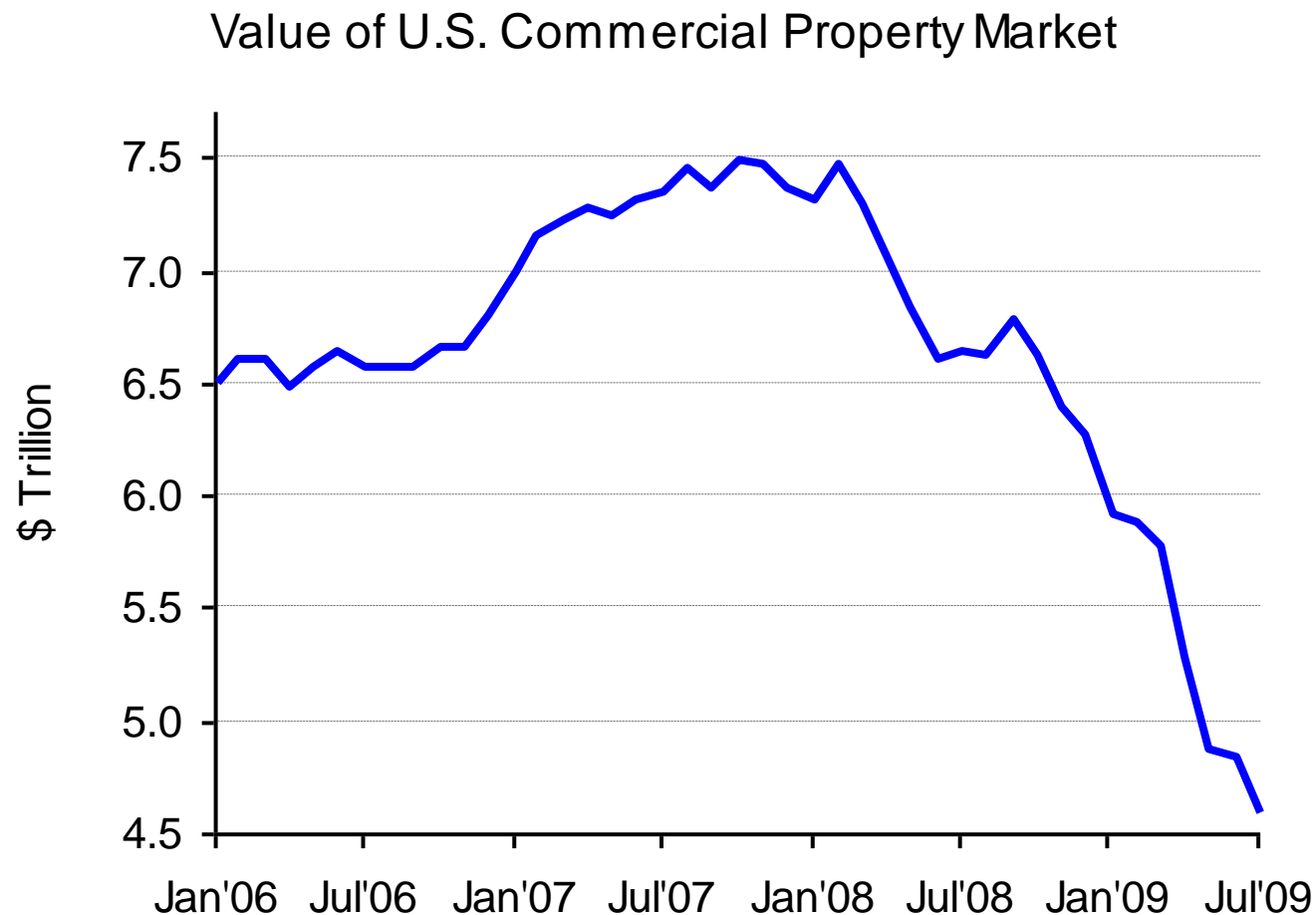
1) The Fed bought \$1.5T of mortgages

2) 1½ million houses have been sold with a subsidy of \$8,000 each

3) Over 90% of new mortgages have government guarantees through Fannie Mae, Freddie Mac, and Ginnie Mae

Sources: Federal Reserve Z.1 (blue); Seminole est. using Case-Shiller 20-city prices (red)

The commercial property market has dropped \$3 trillion due to excess supply





We built an excess of retail space, and continued despite the introduction of online shopping

- Between 1990 and 2005, consumer spending per capita rose 14%, adjusted for inflation, yet retail space per capita in the United States doubled.
 - "Malls Test Experimental Waters to Fill Vacancies", *NY Times*, 4/5/09
- There are 12.5 billion square feet of retail space in the U.S.
 - Costar, noted in ICSC Retail Real Estate Business Conditions report, 5/16/08
- The U.S. has over 6 times as much retail space per capita as any European country.
 - *Retrofitting Suburbia* by Ellen Dunham-Jones and June Williamson, noted in "Repurpose-Driven Life," *NY Times Magazine*, 6/8/09



Real estate: wealth or expense?

More residential & commercial real estate

= more costs

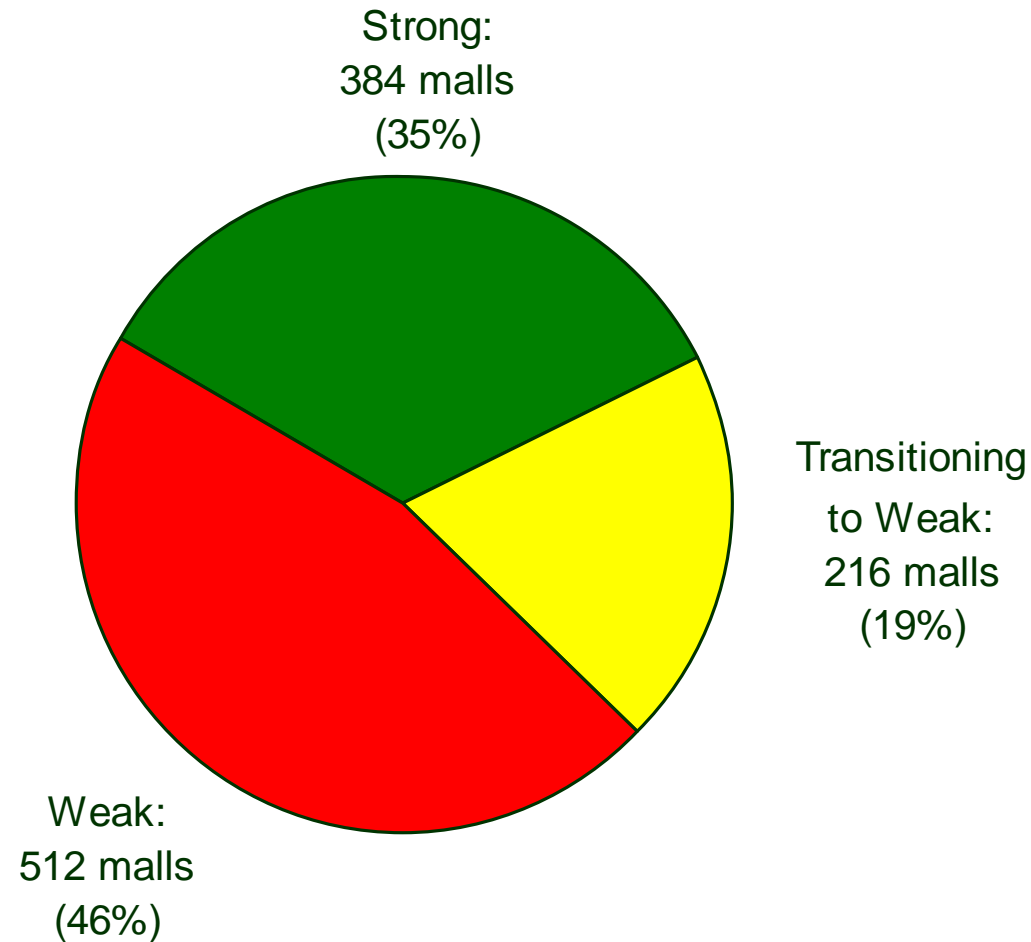
≠ more wealth

Buildings need to be heated, cooled, and protected, costing money.

Buildings need financing, monopolizing capital for unproductive uses.

No real wealth created; the S&P 500 decreased 10.8% from 2000-2009, including dividends.

65% of regional malls are weak or weakening



More regional malls are becoming “dead malls”





“Densify or dynamite”

“The most over-retailed country in the world hardly needs more shopping outlets of any kind.”

- Jonathan Miller, PricewaterhouseCoopers, 2003

“We’ve probably seen the apogee of big-box retail,” said Matt Winn, a managing director with Cushman & Wakefield of Georgia. For some suburban shopping centers, “it’s going to get ugly. Retailers were rewarded by Wall Street for opening stores. Now they have to ask, ‘Does another store make sense?’ ”

Winn spoke to the Federal Reserve Bank of Atlanta earlier this year about incentivizing smart retail growth. His message to the bankers: “densify or dynamite. If everyone consolidates into fewer centers, what happens if the others become completely vacant? You take the dynamite out and you change them.”

- *Atlanta Business Chronicle*, Oct. 16, 2009

Over \$11 trillion has been allocated to the financial rescue to support paper assets

Program	Allocated (\$b)	Totals
Federal Reserve (major programs are listed)		
Commercial Paper Funding Facility LLC (CPFF)	1,800	
Term Auction Facility (TAF)	900	
Unnamed MBS and GSE Program	1,450	
Term Securities Lending Facility (TSLF)	250	
Term Asset Backed Securities Loan Facility (TALF)	1,000	
Total: Federal Reserve		7,205
FDIC		
FDIC Liquidity Guarantees	1,400	
Loan Guarantee to Citigroup & GE's lending arm	388	
Total: FDIC		1,788
Treasury Department (major programs are listed)		
Troubled Asset Relief Program (TARP)	700	
Fannie Mae / Freddie Mac Bailout	400	
Recovery and Reinvestment Act	780	
Total: Treasury Department		2,132
FHA - Hope for Homeowners		300
Grand Total		11,425

Source: Strategas



A remedy for excess construction and its ongoing costs

- Creation of mortgage debt has encouraged overbuilding of non-productive housing and retail assets
- Vacancies are **costly** – to neighbors, communities, banks, and the economy
- Vacancies are **huge** and will continue to grow
- Parks address the physical toxic assets undermining our financial system
- Parks transform this new liability to a **neutral** or **positive** asset



Turning excess real estate “green” will:

- 1) Provide substantial liquidity to a dysfunctional real estate market
- 2) Improve the supply-demand balance for remaining properties (“densify or dynamite”)
- 3) Speed the adjustment of our economy from asset-based businesses into new, Internet-based businesses
- 4) Create jobs immediately, through construction and demolition
- 5) Make our country a much nicer place to live

We need to change this ...



... into this:





Possible funding ideas

A Red to Green park program should access resources across Federal government departments.

Using existing real estate financing programs, a \$240 billion urban/suburban park program could be developed.

Only \$30 billion need come from new appropriations:



Possible funding ideas

1. FDIC and banking changes

- a. Change Section 123 of FDIC Improvement Act to include urban park land as an exception to the maximization rule. E.g., add *maximize the availability of real property for urban parks and other public recreational uses*.
- b. Permit banks to resell tax credits when donating properties to be used as urban parks
- c. Encourage the creation of private sector Land Banks which could be encouraged to finance the purchase of underutilized real estate and set aside 33% (or some other acceptable percentage) for park land. Total FDIC possible support using bank structures - \$100 billion.



Possible funding ideas

2. Treasury and Federal Reserve funds

Access TALF, PPIP funds – Allocate 5% of TALF and PPIP commitments to finance the purchase of urban park land.
Total PPIP and TALF at 5% allocation - \$100 billion

Note:

- TALF: \$956 billion of \$1 trillion is untapped
- PPIP: entire \$1 trillion is untapped



Possible funding ideas

3. National Infrastructure Bank

Include urban/suburban parks as eligible for funding from the proposed National Infrastructure Bank.
Could allocate \$10 billion.

“With more parks for exercise and outdoor play, both children and adults would lead healthier lives. Add WiFi, and parks become libraries. All infrastructure is important, including traditional ones like roads, bridges, and dams. But so too are parks, which are quality of life infrastructure investments, especially in urban areas.”
- Prof. Joseph Hughes, Head, Civil Engineering Dept., Georgia Tech



Possible funding ideas

4. Demolition Fund:

Make “demolition” funds available from unused stimulus money to any land owner to pay for the costs to demolish underutilized commercial or industrial real estate developments, provided the property is not historically significant and remains undeveloped for at least 5 years. Need appropriation of \$20 billion.

“The federal government should reimburse cities and towns who hire people from the unemployment rolls to tear down these [excess and vacant] structures, clean up the properties and, if there is no immediate buyer for them, to turn them into green spaces”

- Paul O'Neill, former Treasury Secretary, New York Times, 12/9/09



Possible funding ideas

5. Keep Green Fund:

Make “keep green” funds available to maintain the new urban “raw land” as a public park provided the park is maintained to appropriate standards
Need appropriation of \$10 billion.

“Every New Jersey resident deserves well-maintained, accessible neighborhood parks, wildlife areas and historic sites. Our communities rely on these areas for a high quality of life, livable neighborhoods and sustainable economies.”

- NJ Keep It Green Campaign, a broad coalition of over 145 groups



Summary

A major park funding program is necessary to stabilize real estate in many of the country's urban and suburban areas.

Such a program would help the banking system as well.

If existing real estate backstopping programs could be accessed, a \$240 billion urban/suburban park program could be organized with only \$30 billion in new appropriations required.

As Georgia Tech's studies have shown, America's real estate would be transformed, jobs created, and the country reinvigorated.



Red Fields to Green Fields events

- Roundtable at Georgia Tech - 8/11/09
- Conference at City Parks Alliance in Washington – 9/15 & 9/16/09
- Meeting with K.C. Conway, CRE Subject Matter Expert, Atlanta FRB and CRE Risk Specialty Officer of NY Fed – 11/13/09
- Meeting with staff and Director of the Atlanta FDIC – 12/7/09
- Meeting with Georgia Rep. Lewis and Senator Isakson – 12/15/09
- Meeting with Resolutions and Receivership staff at FDIC in Washington – 12/16/09
- Meeting with New York Rep. Maloney – 2/4/10



Appendix: The Atlanta Case Study

Problem Statement

- Given \$5 billion, what could be done in Atlanta and within the metro region to:
 - Purchase toxic assets
 - Create parks
- What impact would be realized?

Atlanta's retail vacancy rate is 23% and climbing

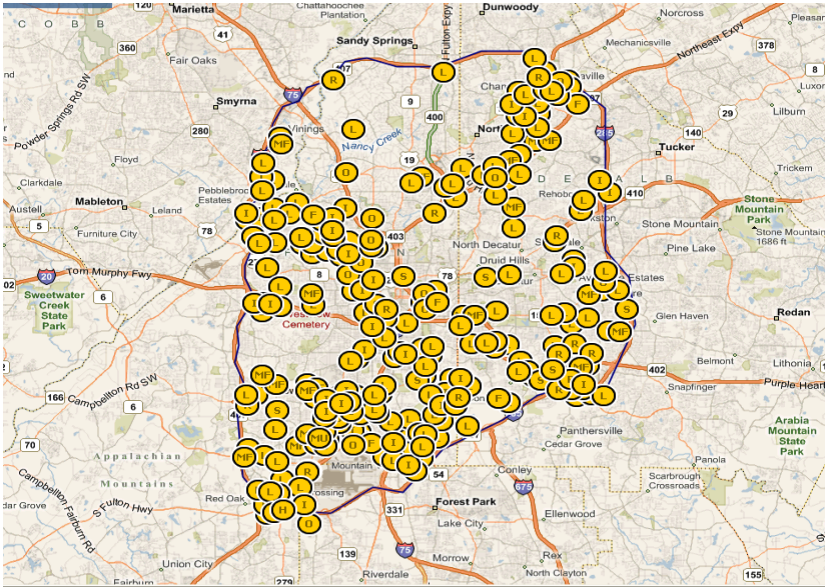
Retail regret

Metro Atlanta has one of the worst retail markets in the United States, some analysts say. Its vacancy rate is higher than many cities and retail property values have fallen by as much as 60 percent.

BUILDING NAME OR ADDRESS	CITY	RENTABLE AREA (SQ. FT.)	PERCENT VACANT
2375-2395 Wesley Chapel Road	Decatur	215,096	50%
Marietta Plaza	Marietta	206,828	53%
Sandy Springs Crossing	Atlanta	133,324	55%
1425 Market Blvd	Roswell	298,294	58%
4051 Stone Mountain Hwy	Lilburn	113,216	59%
Sweetbriar Town Center	Acworth	172,000	61%
Doraville Plaza	Atlanta	191,967	65%
Cobb Marketfair	Marietta	120,841	66%
2135 East Main St	Snellville	182,835	67%
Building 300	Cumming	100,665	70%
Kings Creek Shopping Center	Roswell	117,500	76%
Gwinnett Prado Shopping Center	Duluth	322,991	78%
Avondale Square	Avondale Estates	146,207	80%
Sandy Plains Village I	Roswell	159,184	82%

Source: CoStar Group

Atlanta's property market inside the Perimeter has plunged



5 YEAR HISTORICAL

	Average (\$/acre)	Total (acres)
Improved	1,757,402	5714
Land Only	416,819	3370

ON MARKET

	Average (\$/acre)	Total (acres)
Improved	370,913	846
Land Only	592,734	1,193

- Historical 5-yr price per acre average, improved lot: \$1.76 MM
- Current market listed price per acre, average:\$371,000 per acre—a **79%** discount
- Many potential sellers are not listing properties due to market conditions



Appendix: The Atlanta Case Study

Unemployment

The unemployment rate in the state of Georgia ranks 8th in the nation, topping 10%. Economic indicators predict that this rate will continue to rise.

Bank Failure

Georgia leads the nation in bank failures, accounting for 25% of the total number.



The Impacts

- 2,850 acres of park space created within the 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 nearly 13,000 acres of green space

OR

- 6,500 acres of parks within 20 miles of Atlanta and 780 miles of greenbelt throughout Georgia



Closing

- Atlanta real estate market would be transformed
- The proposed projects are technically feasible
- Initial research suggests the adjacent lands benefit tremendously
- The projects are scalable on a national basis

