After the subway system opened in 1976 with a Rosslyn station on a direct line to National Airport only 16 minutes away, development took off. Now nearly 2,500 residential units and more than 8 million square feet of office and commercial space are located in the station area. Since opening in 1984, Atlanta's Lenox station has attracted more than 3 million square feet of office space, which accounts for nearly 10 percent of greater Atlanta's office inventory. Next to the station, which serves a 35-mile commuter rail line, is a large joint development built with transit agency participation: Resurgens Plaza, a 27-story, 380,000-square-foot office complex. Atlanta Plaza, a 674,000-square-foot office tower containing 14,000 square feet of retail space, connects to the station's north concourse. Lenox Square, near the south concourse, includes a 167,000-square-foot office building and a 375-room hotel.

A second Atlanta subway station, Arts Center, located between central Atlanta and Buckhead has emerged as another early transit business center. It saw more than 2.5 million square feet of office space added between 1983 and 1989. Among its complexes are the 450,000-square-foot Campagnile office tower, the 700,000-square-foot AT&T Promenade II, a mixed-use office tower, and the 1.1 million-square-foot IBM Tower. From 1980 to 1989, the inventory of leased office space at Arts Center station increased 11 percent per year. By contrast, office growth during the same period in the nearby freeway-oriented office market along the I-75 corridor increased only 12 percent per year. The period in which mass transit makes little difference in the life of Americans is over, says Alexander Bascou, a development consultant involved in Bramall's mixed-use projects in Oakland and Dallas. "We can't continue to subsidize the freeway program. The cost of suburban housing is too high. Some day soon, Americans will have to pay north of $3 a gallon for gasoline or to cross a bridge. The answer is fewer cars." It's not a question of if, but when, that day arrives, says Bascou, who is confident that areas like City Center can make possible a giant step in transit use.

New rail-oriented office projects are succeeding all over the country. Their continued marketability may well be the catalyst for an increased commitment of resources to new transit investment, an option that taxpayers may come to view more favorably as commute times lengthen, commuting costs escalate, air pollution continues, and auto-oriented edges offer less and less in terms of quality of life.

The geographic expansion and decentralization of metropolitan areas in the 1950s seem to be a continuation of growth and development trends that began in the 1970s. But, in fact, future opportunities will be in different locations from those of the 1970s and 1980s.

The Changing Location of Development and Investment Opportunities

CHRISTOPHER B. LEINBERGER

Metropolitan development appears to be back on track with trends of the past two decades, after having been abruptly derailed by the real estate depression of the early 1990s. Continuing to push the metropolitan fringe further from downtown, new development is dramatically increasing the size of metropolitan areas. At the same time, some "metro cores" (centers of economic activity within metropolitan areas) that contain many fairly new buildings are maturing and even declining (see feature box on page 32). Investors should heed the warning signs and recognize some new trends in development.

What have the development trends of the past two decades wrought? Metropolitan areas have grown in size much more than in population. For instance, metropolitan Chicago's population grew only 4 percent between 1970 and 1990, but its land area grew
A Brief History of the Metro Core Expansion

The typical U.S. metropolitan area has seen, over the past 30 years, the emergence of multiple centers of regional economic activity. Robert Charles Lesser & Co. has come to call these centers “metro cores”, on an umbrella term that includes downtowns, edge cities, and industrial activity centers that are local aggregations of export and repair-servicing jobs and business.

Growth in the number of metro cores has occurred largely in tandem with real estate booms. With the exception of original downtowns, most metro cores were established during major real estate upturns, grow explosively as employment and economic upturns, mature, and then stall or decline.

First Generation. Until 1960, export and repair-serving jobs were concentrated generally in or near downtowns, as were high-end housing and major retailing. As is well known, after 1960, downtowns began losing population, retailing, and finally jobs to the suburbs. Today, downtowns attract only a few of these types of uses: professional services, financial services, and government. Employment in these sectors is stable or shrinking. Most manufacturers and other industrial users of space that remain downtown do so because their occupancy costs are below the replacement value of the space and because of their access to rail, a service that has lost its relevance to most companies today. Region-serving retailing may maintain a downtown presence, but in a much reduced scale. High-end housing exists in or near only a few downtowns. Obviously, the density of most downtowns is in urban with four-to-six stories, well above 0.5, and generally over 2.0.

Second Generation. In the 1960s, new office and industrial space began to locate two to six miles from downtown in metro cores that provided the first alternative to downtown for office and industrial users.

These metro cores that are office-oriented have largely failed, victims of the decline of nearby neighborhoods. Their 1960s, 1970s, and a few of their 1980s office buildings look seedy and compete only in price. Office space generally rents for under $10 per square yard, well below replacement costs. Most region-serving retailing has left and most high-density housing, particularly rental, has declined in value. Suburbanization in character, these cores have a floor-to-area ratio between 0.2 and 0.5.

The few second generation office-oriented metro cores that are successful are urbanizing and also continue to have good access to executive housing and superior retailing.

Industrially oriented second generation metro cores—like City of Commerce in Los Angeles, Kent Valley south of downtown Seattle, and Houston’s Shipyard area—quickly established the concept of the industrial park. They generally continue to maintain their value to this day. As work centers only, these metro cores are generally immune to local demographic shifts. Their key concern is the maintenance of the transportation infrastructure.

Third Generation. The explosive growth of office-oriented third generation metro cores was the big real estate story of the 1970s and 1980s. Every U.S. metropolitan area, regardless of size, sprouted at least one or two of these. Even Tyler, Texas, population 77,000, has one of the south side of town, named Brookway Square for the regional mall it surrounds. Tyler’s high-end housing district excites the metro core. Third generation metro cores are anchored by a regional mall and located next to a major limited access highway.

Many third generation office-oriented metro cores contained more occupied office space by the end of the 1980s than did the region’s downtowns, even though they had been in existence for barely two decades. More recently, their growth in regional market share of new office space has slowed. The chief factors causing this slowdown are traffic congestion resulting from insufficient highway capacity for the metro core, local market opposition to more growth in the metro core (because of its traffic implications), and lack of land for development.

In the 1980s and 1990s, industrially oriented third generation metro cores grew up along interstates or other limited access highways. Like their predecessors, these tend to be flagship concentrations of industrial and warehousing buildings strong together with acres of surface parking lots with no retail or high-density residential elements nearby.

Fourth Generation. In the 1980s, fourth generation office-oriented metro cores emerged five to 12 miles farther out from their predecessors and in the same direction from the center city. They were innovatives in their industrial character. For example, Far Lakes on I-40 west of Washington, D.C., and Plane on the Dallas Trolley north of the city are very low-density, lightly landscaped campuses. Far fewer office-to-area ratios generally are under 0.2.

Fifth in the 1980s, these newest metro cores compete with each other to attract the newer high-tech, high-skill office submarket. Nearly all of the substantial build-to-own office activity that took place in the early 1980s was in these “new” towns.

In the 1990s, industrial metro cores continued to expand beyond their predecessors, four to ten miles beyond, along interstates highways on the fringes of fourth generation office-oriented metro cores. Examples include the Viloxwood area in northeast Dallas, While March in eastern office/industrial metro core in northern Baltimore, and the Carboniferous Polserm Airport area in San Diego County.

The M-E-T-O-CORES IN THE ATLANTA REGION

In 1983, downtown Atlanta contained nearly one-third of all occupied office space; a decade later, its market share was only one-quarter. Similarly but even more starkly, the third generation Northeast Expressway metro core saw its share of occupied office space fall from nearly 12 percent in 1983 to only 7 percent in 1993.

In contrast, the third generation Perimeter North metro core gained market share, from 14 percent of the region’s occupied office space in 1983 to almost 20 percent in 1993. All told, the favored quarter had captured more than 80 percent of all employment growth since 1983. Nearly all relocating businesses from within the region went into this quarter.

The third generation metro core in the favored quarter—Georgia 400, Marietta Town Center, and Oakwood/Gwinnett Place—contained almost no occupied office space in 1983. By 1993, they had nearly 4 million square feet, which represents 12 percent of the total metropolitan area’s speculative office space. These cores also attracted most of the owner-occupied buildings contracted in Atlanta.

The Example of Atlanta

Atlanta provides one of the best examples of these metropolitan development trends. Atlanta’s favored quarter is north of downtown, where more than 90 percent of the region’s housing priced over $100,000 is located. When built in the early 1970s, the I-285 freeway defined the region’s northern boundary and a mall built in 1973 adjacent to the freeway was named Perimeter Center. This was a key edge location. Since then, the continuing push to the north has been dramatic. (See graph on the following page.)
changing during the decade, like the regional headquarters of AT&T, Honda, and Siemens.

New employment in these three outlying
metropolitan areas has had two consequences. The first is the development of new housing projects even farrther north, continuing the expansion of the metropolitan areas. The second is a heated political debate over whether another beltway be built connecting the three metro cores and eventually encircling the metropolitan area. This new beltway would be 12 miles from the “inner” beltway, but the frontiers of the metropolitan area only two decades ago.

**Opportunities and Pitfalls**

True, the underlying trends of decentralization of economic activity and geographic expansion of metropolitan areas appear to be continuing and may even be accelerating. But the location of opportunities is changing.

**Downtowns (First-Generation Metro Cores).** Employment bases that are generally shrinking relative to employment in suburban areas, most central city downtowns face limited future stability, moderate decline, or severe decline.

One mark of stable downtowns is the presence in or near the downtown of a significant amount of high-end housing, generally well-maintained housing built 60 to 100 years ago. Executives living close to downtown are inclined to locate their businesses downtown. A second key to stability is a vibrant retail element that serves both local workers and residents and tourists. Successful convention facilities, professional sports facilities, and tourist attractions help retailing, particularly if they connect to downtowns via a convenient and safe walk for pedestrians. Only a handful of U.S. downtowns— including Washington, D.C., Seattle, San Francisco, and midtown New York—meet these criteria for stable downtowns.

A few U.S. metropolitan downtowns will continue to experience employment and office space growth at only half the rate of their suburban areas. While this is a whole a decline is therefore in moderate decline. While many of these downtowns continue to grow, future economic growth, it is not stable nor is it growing. Some have also a vibrant retail sector supported by a convention facility, professional sports facilities, and tourist attractions. Some of these retail-rich downtowns, like Denver, are becoming healthier and may eventually become stable. A few like Baltimore and San Diego are in moderate decline but are unlikely to decline further. Others, like Atlanta and Dallas, newly after the stimulus from the Olympics has died down, Philadelphia, and Los Angeles, are in danger of slipping into severe decline in the absence of further remedial action.

A typical, large downtown in Los Angeles’s CID in 1960 contained 60 percent of all occupied office space in southern California; in 1985, this figure had dropped to 22 percent. Between 1985 and 1992, however, downtown absorbed only 11 percent of new office space, thus, in effect, suffering further decline. A gleaming new skyline that replaced millions of square feet of obsolete space during this decline in market share and vacating vacancy rates.

Many other downtowns are in severe decline in terms of employment and office growth. They lack virtually any upper-end housing or any retail except for a small amount serving office employees. Any convention or professional sports facilities exert little impact but it’s hard to drive to and then immediately leave when it ends. Although Detroit’s is probably the most severely declining downtown, other metropolitan areas with a similar situation include St. Louis, Tampa, Phoenix, Dallas, Houston, and Jacksonville.

Stable downtowns offer investment and development opportunities in nearly all product types—office, industrial, hotel, residential, and retail. The best opportunities in downtowns that are in moderate decline are tourist-related hotel and retail products and, possibly, residential products. Justifying new office construction in downtowns that are in moderate or severe decline will be next to impossible, except for the occasional government-sponsored build-to-suit building, which is of dubious merit. Denver is an outstanding example of a moderately declining downtown in which some real estate sectors have revived: high-end residential, entertainment, retail, and restaurants. The revival of the hotel sector is sure to follow when the new Coors baseball stadium, housing the Rockies, opens in 1995. But the revival is not spilling over into office and industrial markets, because even the ghosts of a recent job boom, downtown job growth is relatively weak.

**Second Generation Metro Cores.** Second generation metro cores that are office-oriented—the Northeast Expressway area in Atlanta, for example, or the Stemmons Freeway area in Dallas—offer little in the way of investment grade opportunities. They are losing employment and few boast either a retail base or high-end housing.

There are exceptions to this rule. Rala Cunyad, literally over the Philadelphia city line, continues to maintain high office lease rates, active retailing, and healthy, nearby high-end housing. Fear that crime will cross Philadelphia’s boundaries is the largest threat to this core. In the Washington, D.C., area, the success story of the Bellevue has helped revive second generation metro cores. Areas around many inner suburban subway stations, such as Courthouse, Ballston, Friendship Heights, and Bethesda, have attracted employment, housing, and some spirited retail and high-density residential development.

Second and third generation industrially oriented metro cores should continue to maintain their underlying value, assuming transportation is adequate and local crime, if a problem, can be prevented from spilling into them. Most second generation areas, however, are built on the premise and the opportunity to redevelop at higher densities is limited by the fact that most industries demand space in single-story with plenty of surface parking. If demographics, access, and visibility improve, some industrial facilities in these areas could be converted to retail power centers. Third generation industrial cores, such as NE-Princeton Corridor in Atlanta and the area along Route 1 northeast of Philadelphia, still offer land available for new development.

**Third Generation Metro Cores (Office-Oriented).** Some of these cores are in the process of urbanizing: connecting to mass transit systems, adding high-density housing, expanding the retail base, and generally developing more urban, pedestrian-oriented character. Third generation urbanizing areas—examples include Buckhead/Lenox and Perimeter North in Atlanta, Costa Mesa/Newport Beach/Irvine in Los Angeles, Cherry Creek in Denver, and Country Club Plaza in Kansas City—will experience faster employment and office space growth than their metropolitan areas as a whole. (A few fourth generation cores, such as Renton in the Washington, D.C., region, are also urbanizing.)

These metro cores are appealing because they offer safe urban living. It is unlikely to continue to be successful, they must be actively managed via a business improvement district organization, a property owners association, a transportation management association, or the like that core, for example, provide security, maintain common areas, programs to develop programs to manage traffic congestion, and lobby for infrastructure improvements. One of the best examples of such an organization is the Buckhead Coalition in Atlanta, which focuses on the Buckhead/Lenox core.

These "new downtowns" offer investment and development opportunities for nearly every product type. Many have recently seen dramatic declines in office vacancies and they tend to lead their metropolitan areas in effective office rents.

A different future may be in store for third generation metro cores that retain a suburban character. Employment and office growth in these areas, as a general rule, will either just match or fall slightly below growth for their metropolitan areas as a whole. Effective office rents are likely to stay below replacement level, meaning that little new space can be developed. Similarly, retail and rental housing values may experience a weaker recovery than these sectors are experiencing nationally.

Some of these suburban cores are showing signs of decline, usually as a result of an influx of low-income residents. Change can occur rapidly as fears of crime and the deterioration of school systems flourish. The Greenspoint area in northwest Houston serves as an example. After 6,000 rental apartments near the Greenspoint Mall completely turned over to low-income families, area residents, shoppers, and office workers perceived the environment sharply on the rise, a perception fed by a murder outside the mall (even though those involved had no connection with the mall or the core). Office tenants are not leaving in a panic, but certainly the business climate in the core is in the region are benefiting. Metro cores like Southfield in the Detroit region and Cumberland/ Powers Ferry in Atlanta face similar prospects in the absence of actions to avoid fear-based demographic changes.

The majority of suburban-oriented metro cores are not likely to experience dramatic demographic changes over the next five to ten years, but will still grow slowly relative to the growth of their metropolitan areas. Examples include Tysons Corner in the Washington, D.C., area, and Irving of Frisco in the Philadelphia area, and Encino/Ventura Boulevard in Los Angeles.

**Fourth Generation Metro Cores.** Metropolitan area employment growth is shifting to fourth generation metro cores, where the bulk of new and
A word of caution is in order. With almost no barriers to entry, no community opposition to new development, and plenty of available land, overbuilding could easily occur. Investors here will not be protected by the barrier to entry provided by the growth management policies pursued in some third generation cores.

Fifth Generation Metro Corrs. Because existing fourth generation metro cores still offer considerable capacity for development, fifth generation metro cores probably will not emerge very rapidly in the late 1990s. Still, some have come into being with a focus on owner-occupied warehouses. Examples include warehouse concentrations northwest of Atlanta on I-75 and northeast of Baltimore on I-95. Warehouse development can take place on relatively cheap highway-accessible land well beyond the fringe of the metropolitan area because warehouses employ few workers and thus need not be located near concentrations of employees’ housing.

What It All Means

The ways in which metropolitan areas are developing have important social and policy implications. Residents of central cities and inner suburbs will be increasingly isolated from new employment opportunities, especially given the lack of transit connections to the new and relocating jobs in fourth generation cores. Some inner suburbs will decline rapidly, because they lack a strong job base and have few existing cultural or civic institutions that are regionally supported. Declines in property values and educational standards and an increase in crime are sure to follow.

The declining tax base of the central city and inner suburbs will exacerbate social problems. Municipal costs will increase, which will probably lead to more state takeovers of financially bankrupt jurisdictions. These financial difficulties may also lead to more regional tax sharing, such as the current vigorous debate over this issue in Minneapolis/St. Paul.

As regions continue to grow toward the fringe without building enough limited access highway capacity, which often seems to be the case due to antisuburban and anti-road-building sentiments, traffic congestion will increase and air and water pollution will worsen.

Current growth trends offer many investment and development opportunities to people who understand the underlying determinants of growth and decline. Some markets that were the most overbuilt in the 1980s may yield some of the best investment bets for the late 1990s. On the other hand, paying in little as 60 cents on the dollar for a five-year-old Class A office building in the wrong metro core may be an investment that never pays off.

Christopher B. Leinberger is managing director of Robert Charles Levin & Co., a national real estate consulting firm based in Los Angeles.

Advanced communications infrastructure is required to support life on the "infloway." Linking homes to networks and interactive services is a concept developers are beginning to take seriously, as several projects in Canada demonstrate.

Building Telecommunities

Albert Warson

By this fall, about 60 households will have moved into the first houses in the village of Montgomery, near the town of Orangeville about 50 miles north of Toronto. The village has a distinctly different look from most new subdivisions, with three- and four-story attached townhouses and detached houses sporting wooden balconies to porches in front, pitched roofs, and garages backing onto common rear lanes.

River Oaks Group, the Toronto-based developer, is betting that within three years buyers will have snapped up nearly 700 more units, organized along grid streets on the 250-acre site. Prices are running from $110,000 to $200,000 (all dollar figures are Canadian).

Montgomery Village offers more than nototrdonal design. In fact, it is decidedly untraditional in one respect: River Oaks is spending more than $1 million on a communications infrastructure loop ng all the houses together by coaxial cable in a comput erized local area network.

Fiber optic cable is already in the ground, awaiting the residential critical mass to connect businesses, services, restaurants, and a regional high school. Meanwhile, residents will have standard cabling and access to the Internet, so they can choose fiber optic cabling—with its far greater transmission capacity—for $100 or so a month, payable to Bell Canada. For a certain volume of at-home business, the cost of the fiber optic option would be justified.