

Infrastructure 2014

SHAPING THE COMPETITIVE CITY



Hong Kong's investment in high-quality transit has allowed the city to achieve remarkable densities, a superior quality of life, and protection of environmentally sensitive land areas.

HOW DO REAL ESTATE DEVELOPERS AND INVESTORS—who could pursue opportunities regionally, nationally, or internationally—think about infrastructure? How do city leaders use infrastructure investments to position their cities for real estate investment and economic development? What role does infrastructure play relative to other economic development strategies? And are public and private perceptions and priorities aligned—or do they diverge, and in what ways?

These were the central questions for *Infrastructure 2014: Shaping the Competitive City*, the eighth in an annual series of reports examining infrastructure trends and issues by ULI and EY.

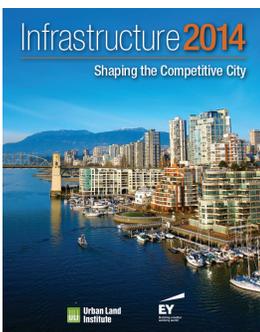
To provide answers, researchers for *Infrastructure 2014* crafted a series of survey questions and asked high-level public officials and private real estate leaders to weigh in. Nearly 250 public sector leaders in local and regional government and over 200 senior-level private developers, investors, and real estate advisers responded to the survey. About 86 percent of survey respondents were based in the United States, with the balance located in countries across the globe.

Nearly every city aspires to grow, and high-quality infrastructure—infrastructure that is well maintained, reliable, safe, resilient, and customer friendly—contributes to well-functioning, growth-

primed cities—cities that attract new residents and retain existing ones.

Infrastructure—the physical facilities and systems that support economic activity—is often seen as a driver of real estate and development, especially by those who are in the business of providing it. But do the people actually building and investing in real estate agree? The *Infrastructure 2014* survey tells us “yes”—and a number of other interesting things as well.

On many of the questions asked, there was strong convergence between the public and private sector respondents, and between U.S. and global ones. The survey provides a means for mutual learning and dialogue that can help advance the conversation about the role that infrastructure plays in shaping and promoting growth, infrastructure priorities, and opportunities to improve current practice.



This is a summary of key findings. We invite you to learn more about the *Infrastructure 2014* survey online and read the full report at www.uli.org/infrastructurereport and www.ey.com/realestate.

FINDING 1

Top Drivers of Real Estate: Infrastructure, Consumer Demand

Infrastructure quality emerged in our survey as the top factor driving where real estate development happens, leading the list of eight possible forces shaping real estate investment.

Eighty-eight percent of survey respondents rated infrastructure quality as a top or very important consideration when determining where real estate investments are made. Infrastructure came out highest for public leaders (91 percent) and second to the top for private leaders (86 percent).

Consumer demand was the top driver for the private sector, with 90 percent of private leaders ranking it a top consideration or very important. A skilled workforce was more likely to be seen as important by the public sector (89 percent) than the private sector (64 percent).

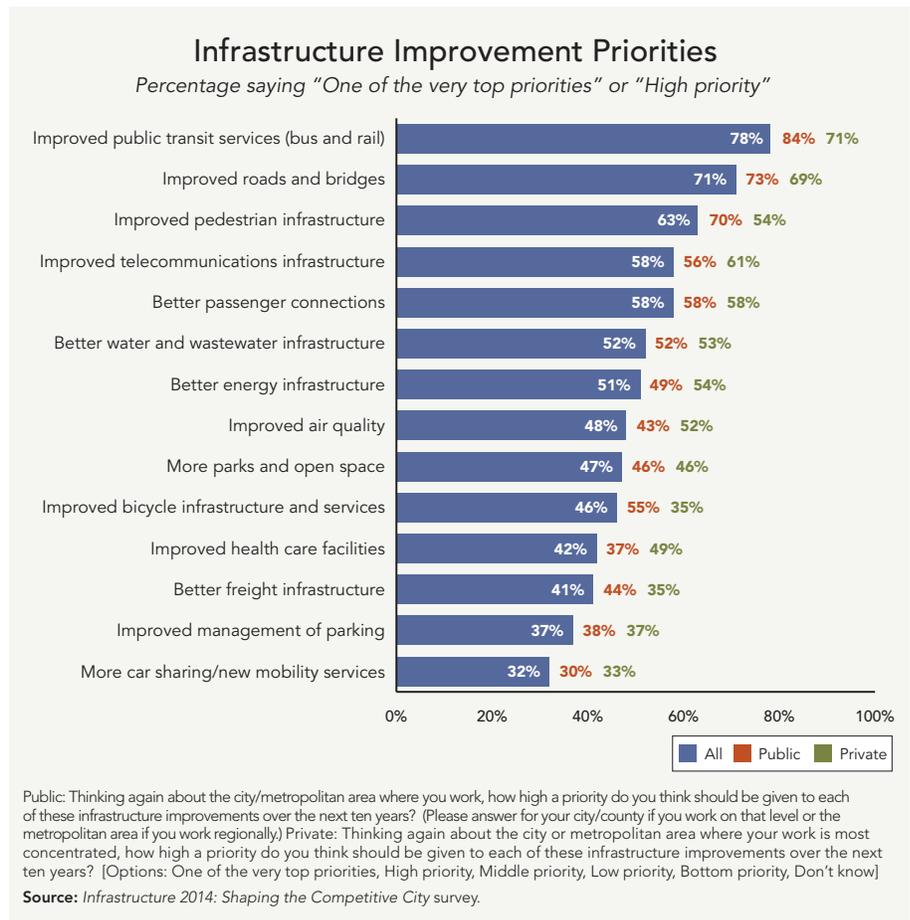
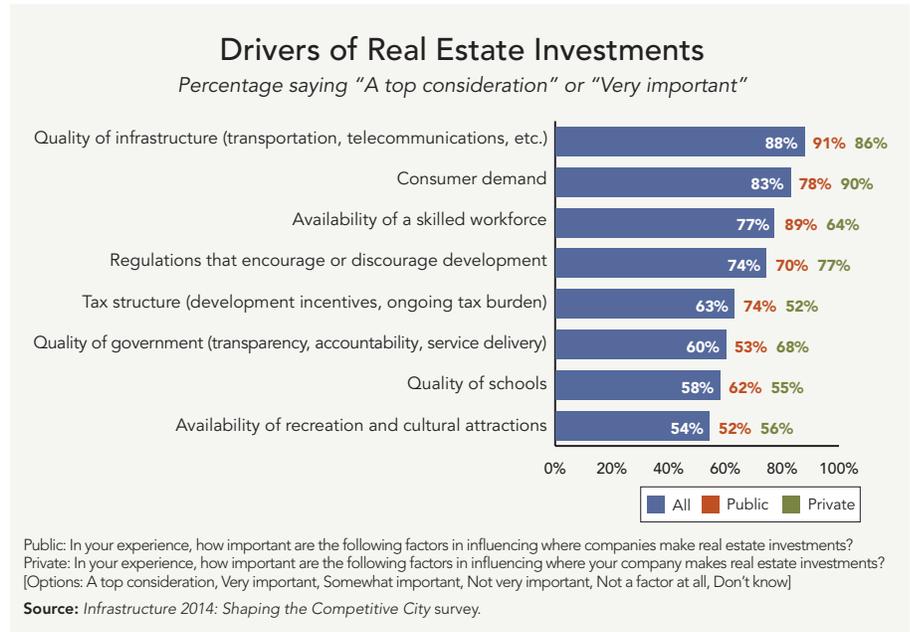
Government services—regulations, tax structure, and quality—fell in the middle of the group of influencing factors for both public and private respondents. However, the private sector saw tax structure as less important than public leaders did, and government quality as more important.

The survey affirms the importance of infrastructure in metropolitan economic development strategies.

FINDING 2

Highest Infrastructure Priority: Improved Public Transit

Upgrades to public transit systems—including bus and fixed-rail systems—emerged from the survey as a strong priority for future investment. (Transit improvements were unspecified, but could include investments in facilities and capacity, service frequency and reli-



ability, information sharing, and the like.)

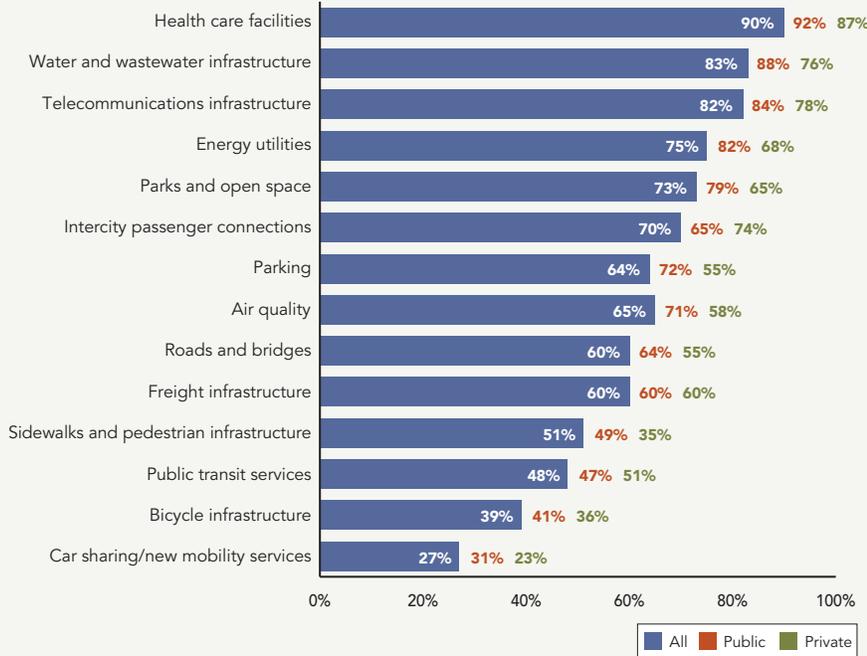
Seventy-eight percent of survey respondents saw improved transit services as a top or high priority. Public and private sector respondents were both likely to rank transit as their highest pri-

ority, although public leaders were more likely than private ones to rank transit highly (84 percent versus 71 percent).

Transportation-related infrastructure held the top three priority spots, with 71 percent ranking investments

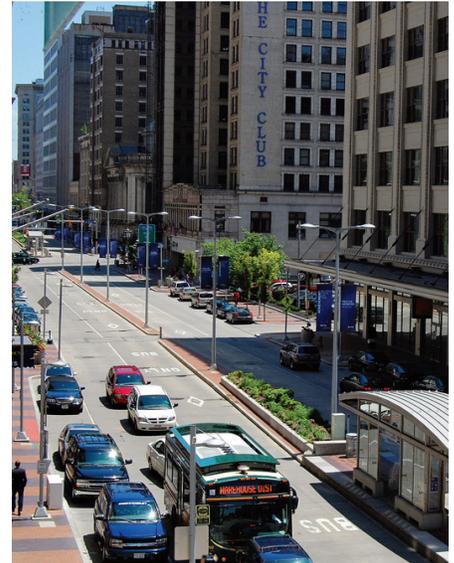
Perceptions of Infrastructure Quality

Percentage saying "Very good" or "Good"



Public: Thinking about the city or metropolitan area where you work, how would you rate the current quality of the following aspects of its infrastructure? (Please answer for your city/county if you work at that level – and for the metropolitan area if you work regionally.) Private: Thinking specifically about the city or metropolitan area where your own work is most concentrated (the place you identified above), how would you rate the current quality of the following aspects of its infrastructure? [Options: Very good, Good, Moderate, Poor, Very poor, Don't know]

Source: Infrastructure 2014: Shaping the Competitive City survey.



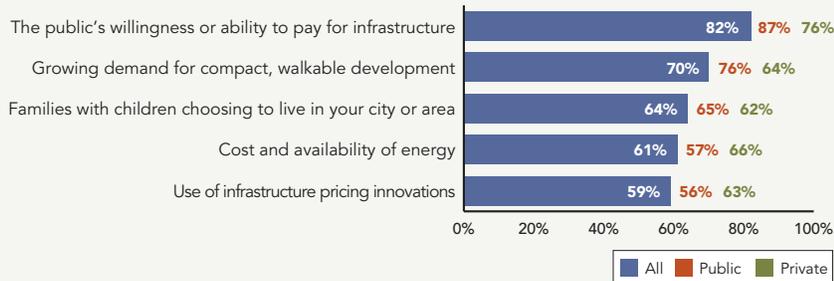
Cleveland, Ohio, enhanced mobility with bus rapid transit along the Euclid Avenue corridor. Improvements to the pedestrian realm were an essential component of the project, which has leveraged billions of dollars in real estate investments. (Flickr/Sam Bobko)

marks in our survey. Roads and bridges received middling marks.

Although many transit systems globally are no doubt of very high quality, increasing ridership coupled with underinvestment has added up to poor conditions in some places.

High-Impact Trends and Issues

Percentage saying "Dramatic impact" or "Significant impact"



Public: And over the next ten years, how much of an impact do you think each of the following factors will have in shaping infrastructure and real estate investments in the city or metropolitan area where you work? Private: And over the next ten years, how much of an impact do you think each of the following factors will have in shaping infrastructure and real estate investments in the city or metropolitan area where your work is most concentrated? [Options: Dramatic impact, Significant impact, Some impact, Little impact, No impact, Don't know]

Source: Infrastructure 2014: Shaping the Competitive City survey.

in road and bridge infrastructure as a high priority, and 63 percent looking for improved pedestrian infrastructure. Public sector respondents, however, were more likely than private sector ones to see pedestrian and bicycle infrastructure as priorities.

Improving telecommunications was

the third-most-important priority for private sector respondents.

QUALITY Priorities for investment were, in general, the inverse of perceptions of quality. Public transit, pedestrian infrastructure, bicycle infrastructure, and car sharing received the lowest quality

FINDING 3

Top Trend Shaping Cities: Public Willingness to Pay for Infrastructure

The public's willingness and ability to pay for infrastructure were seen by survey respondents as the most important factor shaping the future of infrastructure and real estate over the next decade. A combined total of 82 percent of respondents—87 percent of public sector and 76 percent of private sector—said that the public's willingness or ability to pay for infrastructure will have a dramatic or significant impact.

This finding points to the need for infrastructure proponents to make a strong, forward-looking case for infrastructure.

Shifting market demands and demographic trends, including growing

demand for compact, walkable development, and the appeal of cities and metro areas to families with children, were seen as the next two most powerful factors overall. Private sector respondents, however, were likely to think that the cost and availability of energy were more important than demographic shifts.

FINDING 4

Top Infrastructure Funding Source: Cooperation between Developers and Government

Cooperation between developers and local government was identified by three-quarters of respondents as the most significant funding approach for new infrastructure over the next decade. Strategies that require collaboration between real estate and civic leaders—including value-capture and negotiated exactions—also topped the list of likely infrastructure funding sources.

Public and private responses to this question tended to align, despite the limited ability of these strategies to pay for infrastructure at a systematic level and the challenges of applying them in weak-market contexts. Responses to this question reflect the fact that contributions from real estate are often essential components of the funding package for infrastructure projects.

More traditional options, such as income and property taxes and contributions from federal and state governments, were rated as less significant, although every option presented got relatively strong responses, indicating that when it comes to funding, many options need to be on the table.

FINDING 5

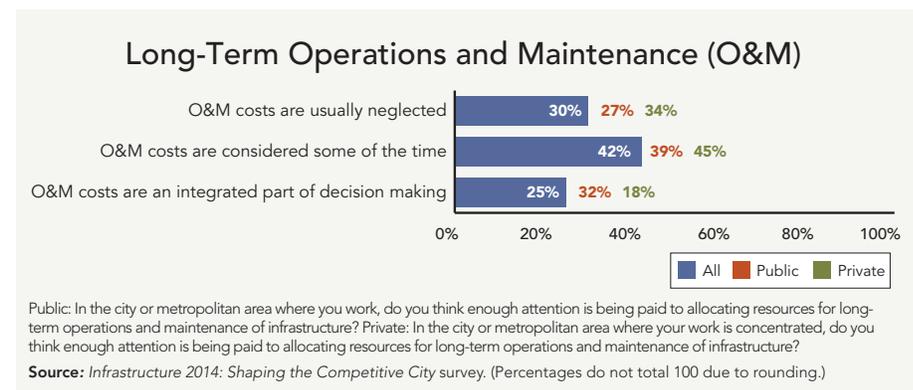
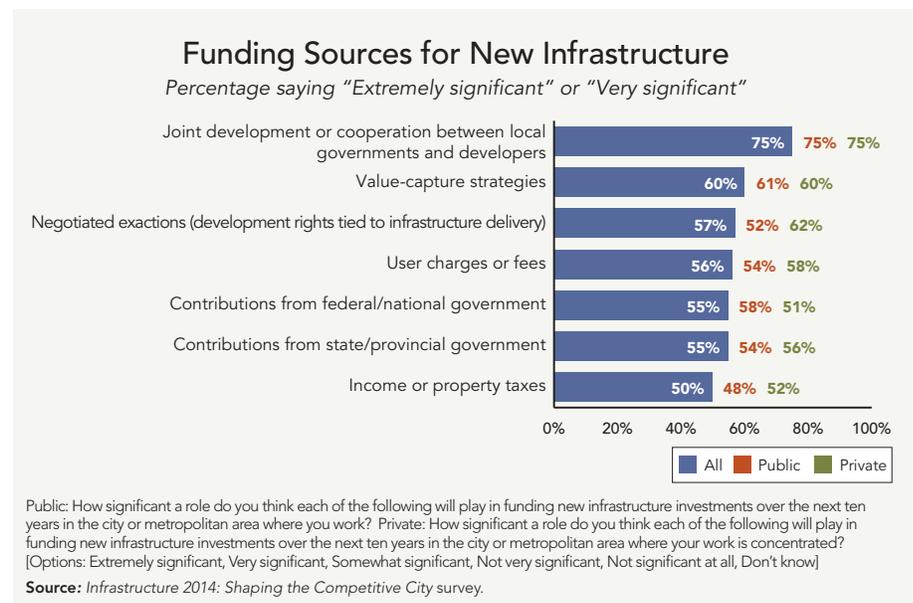
Key Concern: Long-Term Operations and Maintenance

When infrastructure investments are planned, how often are long-term operations and maintenance taken into account, and the needed resources identified? Are cities seen as adequately accounting for long-term infrastructure needs?

Our survey shows that both public and private leaders are concerned about how long-term operations and maintenance of infrastructure are resourced.

Overall, 30 percent of survey respondents said that long-term operations and maintenance are usually neglected, with 72 percent saying that operations and maintenance costs were considered some of the time or not at all. Only 25 percent of survey respondents said that long-term operations and maintenance were usually an integrated part of decision making.

Private respondents had a much more pessimistic take on this subject than public sector ones, and global respondents had a more positive view than U.S.-based ones.



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