

Land Lines

Newsletter of the Lincoln Institute of Land Policy

Universities as Developers

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Universities are involved in the development of their immediate neighborhoods for a variety of reasons. For some, it is a matter of self-preservation and marketing, as neighborhood deterioration and disinvestment can negatively affect student enrollments. Other institutions are driven primarily by the need for new or updated facilities, such as laboratories, classrooms, student housing or athletic fields, which require expansion beyond existing campus boundaries, or by a long-standing commitment to neighborhood redevelopment. However, in tight urban real estate markets, where renters and low-income households already feel the threat of displacement, university expansion plans can serve to intensify residents' apprehensions and lead to complicated land use disputes.



UIC SOUTH CAMPUS DEVELOPMENT OFFICE

Build-out sketch of the 85-acre University Village development at the University of Illinois at Chicago.

Universities have responded to disinvestment and dilapidation in their neighborhoods by using a variety of strategies. These include the acquisition and rehabilitation of abandoned buildings or vacant properties; support of faculty and staff home ownership in the area; improvement of local public services, including public schools and public safety programs; redevelopment of key nonresidential and commercial properties; and, at times, the encouragement of community involvement in the redevelopment process. New development often requires a fresh approach to architecture and urban design, since historically many institutions deliberately cut themselves off from their neighbors. Steve Cottingham, of Marquette University in Milwaukee, refers to this new approach as “weaving in, rather than walling out.”

Even when universities succeed in securing new development sites, they have to balance many competing demands. For example, donors favor signature buildings;

the city requires regulatory compliance; neighborhood activists call for input into the school's expansion plans, as well as benefits from that expansion; parents want a safe environment for their children; and students desire retail and entertainment options, as well as housing and security. Meeting all of these demands is difficult and none of the possible responses speaks directly to furthering the core educational mission of a university.

Roles and Responsibilities of Urban Universities

Last February, the Lincoln Institute, the Great Cities Institute of the University of Illinois at Chicago and the Urban Land Institute convened a group of executive-level university administrators involved in real estate decision making to address these issues. The seminar participants discussed specific real estate development cases as

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well as general concerns, such as finance and taxation, internal organizational structures, working with developers, and community involvement. Participants were interested in the technical aspects of urban development, but also in the expectations and accompanying responsibilities placed on universities in an urban context.

Universities remain one of the few examples of long-established, place-based institutions in urban areas, and they typically have a significant physical presence in their communities. While their faculty, staff and students place many demands on local public and private services, from increased traffic and police protection to escalating housing costs, universities also provide considerable cultural, social, intellectual and economic benefits. The well-known identity of most universities contrasts with that of private-sector corporations that frequently merge and relocate to suit their changing needs and to respond to the highly competitive, globalized economy.

Universities typically do not have this option, so they depend on (and contribute to) the health and vitality of their local communities to protect their vested interests. The quality of the surrounding environment directly affects the competitive advantage of a university, which is crucial to attracting and retaining the best students and faculty. In turn, communities increasingly look to universities to fill the gaps left by departed corporate leadership.

Broad Street Development in Columbus, Ohio, exemplifies this kind of university-community interdependence. Campus Partners, a nonprofit redevelopment corporation started by Ohio State University, has secured the purchase option for this 1,400-unit, scattered-site public housing project. Broad Street's Section 8 contracts from the U.S. Department of Housing and Urban Development (HUD) have expired or are about to expire. Typically, when the federal government restructures or extends these contracts there is a significant reduction in the rent subsidy available to low-income households and little or no money available for rehabilitation of the properties. Campus Partners is working with local organizations to implement a better level of management and structural rehabilitation than is typical for Section 8 projects. Although this housing

redevelopment is unrelated to Ohio State's mission, and the university was initially reluctant to take on the responsibility, when faced with the likelihood of continued physical decline near the campus, the university decided there was no other option than to pursue the project.

As universities expend resources on local revitalization projects, they often set other forces in motion that may alter or threaten the cultural and demographic identity of the neighborhood. Real estate development can contribute to increases in the value of the land and community amenities, but it can also displace existing residents and businesses that cannot compete in tighter and more expensive land and housing markets. Seminar participants debated the responsibility of universities

coupled with high turnover of rental units, can lead to rapid deterioration in the housing stock. This behavior can either start or reinforce the process of declining property values and neighborhood deterioration—a process that fails to benefit either the university community or the neighborhood. Such a situation recently motivated the University of Pennsylvania to enter into a partnership with the Fannie Mae Corporation, First Union Bank and Trammell Crow Company to preserve and develop moderate-cost rental housing options for the broader community, and to provide high-quality management of the units.

Employer-assisted housing (EAH) strategies have also been used by the University of Pennsylvania and other universities to promote home ownership



Rendering of University Village in Chicago, which will include housing for staff, faculty and community residents, as well as retail, office, academic and conference facilities.

to address neighborhood gentrification and housing shortages due to rising land markets in the same way they previously responded to neighborhood decline. The University of Chicago, for example, has long invested in making its neighborhood an attractive residential community. Now, that strategy is being challenged because many long-term residents, both university employees and other urban dwellers, can no longer afford to live there.

Universities also face challenges from falling land markets. For example, some universities are surrounded by privately owned housing that caters to students, and those landlords often engage in short-term management practices to maximize their profits. Substandard property maintenance,

for their faculty and staff. Jim Gimpel, of the University of Illinois at Chicago, underscored the value of developing housing for staff, including the custodial, clerical and food service workers who are crucial to a university's operation yet are among the lowest paid employees. With EAH, a university provides financial incentives, such as down-payment assistance, forgivable loans or a mortgage guarantee, to help employees purchase existing local homes. In some cases, a university may even develop the housing, but will rarely manage it. Sandra Lier, now at the University of Washington, drew on her experiences at the University of California at Irvine, which developed a faculty housing complex. After it was completed, an intermediary

took over the management of the housing so that applications and complaints would be handled by the management firm rather than the university itself.

Town-Gown Tensions

Increasingly, communities are holding universities accountable for their development actions that affect the surrounding neighborhood. Historical town-gown antagonisms, coupled with the high expectations that communities hold for universities, mean that good will is more easily eroded than earned. For example, in the mid-1990s, without public input or consultation, Marquette University decided to close a major thoroughfare to traffic and create new green space for the campus. Although the plan was never carried out, the university lost much of the good will it had gained through earlier, highly successful development projects.

Openly discussing university plans with the community can help keep a project on track and avoid compromising situations when unforeseen obstacles arise, according to Terry Foegler of Campus Partners in Ohio. For example, the University of Minnesota, Twin Cities recently implemented a mandatory Neighborhood Impact Assessment that makes the university's planning vision accessible to the public and requires the university to consider alternatives to its master plan, including the option to stop building in certain locations. However, while community groups want universities to make their plans known, university real estate developers are generally averse to publicizing their acquisition plans, and they commonly establish a 501(c)(3) nonprofit corporation when purchasing land or properties. By buying "blind" (i.e., blind to the seller), the university is protected from the likely premium that sellers would demand were the buyer (and its presumed deep pockets) known. This is an example of how universities are often held to higher standards of development, and it is one area where the university and the community will likely continue to disagree, according to seminar participants.

The contentious issue of tax-exempt status for nonprofit educational institutions was addressed at the seminar by Joan Youngman, senior fellow and director of the Lincoln Institute's taxation program, and Bill Stafford, finance director for the

City of Evanston, Illinois, the home of Northwestern University. After churches, universities are in the strongest legal position with respect to their tax-exempt status. Still, the issue is confusing because vested interests are clear, yet are clearly in opposition. In practice, the property tax is a hybrid consisting of a user charge for services and a wealth charge based on the property's value. Many municipalities favor user charges or fees-for-services, as opposed to property taxes, to obtain revenue from a university, and the race for revenue can lead municipalities to creative ideas. For example, one California city wanted to charge a university for its scenic view. Universities, on the other hand, feel there is some ambiguity with respect to what benefits they actually receive from municipalities, since universities provide many of their own services, such as street plowing and campus police protection.

Despite the controversial negotiations between universities and municipalities around property taxes and payments in lieu of taxes (PILOT), the actual payments may be relatively small, according to Youngman. Depending on the size of the city and the diversity of its local economy, the university payment may not be a meaningful share of local revenues, and several seminar participants confirmed this observation. Smaller cities tend to look to their universities as a more important source of revenue than do large cities, and controversy over tax-exempt status tends to escalate when universities expand their activities beyond their traditional and clearly academic roles. For example, when a university owns property that contains not only research offices and laboratories but also a bookstore, a Starbucks and a Kinko's, should it be tax-exempt? Frank Mares, of DePaul University in Chicago, described a mixed-use project in which specific university uses are tax-exempt while the parking garage and retail spaces are taxed, essentially creating separate taxing districts.

Stafford of Evanston pointed out that there are legitimate public policy questions regarding the uses and abuses of nonprofit organizations. The nonprofit status of universities stems from the long-held belief that they contribute to the public good. However, this privileged status was based on an implicit understanding that the university did not make a profit on its activities. There are currently numerous

examples of ways universities challenge this assumption. For example, when professors market themselves as consultants, working from their university-provided offices and capitalizing on the university's "brand name," are they acting in the public interest? Furthermore, the endowments of many universities exceed the operating budgets of the cities and towns in which they reside. Stafford concludes, "the university, at best, is a subsidized citizen."

Yet, from the perspective of the university, increasing competition has forced universities to walk a fine line between remaining faithful to their missions and vying with other institutions to recruit and retain students and faculty, and to meet ever-growing demands for newer athletic and academic facilities, bigger and better dorm rooms, or more sophisticated telecommunications resources. The role played by universities in their communities has altered considerably over the past few decades and, at a minimum, further clarification of public policy intent and tax law regarding tax-exempt status needs to be revisited.

While the university must address the concerns of its local community, it also faces pressures to respond to broader regional goals. Local governments increasingly view universities as engines of economic development—both programmatically and physically—and as "economic anchors" in the city. Norma Grace, of the University of New Orleans, remarked on a common expectation that universities will create jobs and help local entrepreneurs, yet due to increasing budget demands universities have few resources to support this community goal. As one participant put it, the university cannot be only a real estate developer, because there are consequences to its actions; it needs to be a community developer as well. Hank Webber, of the University of Chicago, stated, "We're not malevolent, we're just wrong a lot of the time."

Best Practices for the Future

Because most universities will remain in their current locations indefinitely, their futures will continue to be intertwined with their surrounding neighborhoods. However, the inevitability of future change and persistent development pressure highlights the differences between universities

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and the private real estate sector. Profit and speed motivate private developers—two qualities not usually associated with universities, particularly public institutions. Furthermore, given the broader mission of a university, short-term, market-oriented thinking is not always suitable. It is clear that future prospects for university expansion remain a complex challenge, especially in urban areas where land available for development is limited and expensive.

This seminar was intended to begin a dialogue among university officials responsible for campus development, and it will reconvene next year in an effort to add to our knowledge of the ways urban universities' real estate development activities contribute to the revitalization of their cities. Many seminar participants expressed an interest in institutionalizing community and real estate development practices, and they stated a preference for examining cases in depth, with input from city officials, community leaders and university administrators, to uncover the complexities of an individual project. Seminar cochairs David Perry and Wim Wiewel, of the University of Illinois at Chicago, have begun collecting such cases to use in future seminars and to broaden the ongoing debate on this topic. We invite interested university administrators involved in real estate decision making to contact us about participating in future seminars. **L**

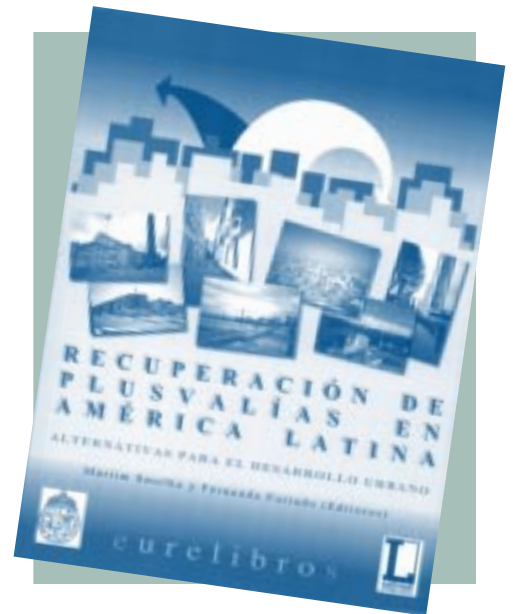
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Value Capture in Latin America: Alternatives for Urban Development

Latin American urbanization is characterized largely by dramatic social inequalities, particularly in the access to urban land and services. These inequalities are expressed in formidable urban land price differentials that are associated with the process through which land value increments are generated, appropriated and used. In this context, it is not surprising that ideas such as the mobilization of land value increments to benefit the community, as inspired by the work of Henry George, have attracted so much attention in the region. Henry George was an American journalist, political economist and social philosopher writing in the late-nineteenth century who inspired many followers, including John C. Lincoln whose Lincoln Foundation established the Lincoln Institute.

Henry George proposed the creation of a single tax that would capture for public benefit the value of land attributed to community effort, rather than allowing that value to be capitalized by the owner. George proposed that such a tax would bring long-term benefits in equity and urban efficiency to counter the inequalities and poverty that typically accompany economic progress. The practical sense and concern for equity and efficiency that inspired Henry George are relevant to urban problems today, in Latin America and other regions.

These issues are examined in the recently published Spanish-language book, *Recuperación de Plusvalías en América Latina: Alternativas para el Desarrollo Urbano*, edited by Martim Smolka and Fernanda Furtado. The editors assembled eight essays by Latin American scholars who demonstrate that value capture policies are theoretically feasible and that legislation and tools for their implementation already exist in many countries. The case studies presented in this volume offer valuable lessons not only for Latin America and the third world, but also for the developed world. The authors and countries included in this book are: Nora Clichevsky (Argentina); Paulo Sandroni (Brazil); Samuel Jaramillo (Colombia); Carlos García Pleyán and Ricardo Núñez Fernández



(Cuba); Gonzalo Cáceres and Francisco Sabatini (Chile); Manuel Perló Cohen and Luis R. Zamorano Ruiz (México); Julio A. Calderón Cockburn (Perú); and Oscar Olinto Camacho and Adriana Tarhan (Venezuela).

The accompanying article on page 5 of this newsletter is based on the editors' introductory chapter. It provides an overview of the nuances of value capture, including common misconceptions and lessons that can be learned from innovative implementation of value capture policies by Latin American urban planners and government officials.

This book inaugurates the editorial collaboration between the Lincoln Institute and the Postgraduate and Research Institute of the School of Architecture, Design and Urban Studies of the Catholic University of Chile, which published the volume as part of its EURELIBROS series.

To order the book in Latin America, contact Gonzalo Cáceres in Chile at gacacere@puc.cl, (56-2) 686-5511 or 686-5539.

To order the book in the United States, contact the Lincoln Institute at help@lincolninst.edu or 800/526-3873.

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