

DOWNTOWN
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Encouraging housing key to reversing inner-city decline

The troubles and challenges that face downtown Dallas can be found in numerous cities in America. The Central Business District is a victim of the success of federal legislation that created the interstate highway system, which in turn gave birth to suburban cities across the country. Just as the coastal harbors, river system and railroads gave rise to these cities during the previous two centuries, the interstate highway system has allowed nearby small communities and rural towns to mature and compete for residents and jobs.

Ironically, the newest form of transportation, air travel, has contributed to the phenomenal growth of suburban Dallas rather than the city itself. Suburban areas

learned how to compete for and attract large employers, who viewed the Metroplex as a great location because of its position in the skyways.

Thus, today, the Dallas CBD is losing jobs because the metropolitan city is becoming decentralized; the service sector, banks, law firms, accounting firms, insurance companies and others, are moving to be near the new jobs. Major corporate campuses and master-planned communities such as Las Colinas in Irving and Legacy Park in Plano are creating opportunities to live, work, play and shop within the same neighborhood.

Evidence of this trend can be seen in recent CBD office space demand surveys.

The CBD has lost tenants consistently since 1988. Today, the only visible sign of growth is in the public utility companies that are still headquartered downtown.

Most major tenants have either left for North Dallas, the suburbs or experienced layoffs and consolidations. These consolidations and layoffs are occurring in most major U.S. cities, causing a dramatic decrease in demand for CBD office space. Additionally, most U.S. cities have spawned mature suburbs that compete effectively with the CBD for jobs and employees. Only government and utility companies appear to feel the need to stay downtown. Over the past few years, even the General Services Administration and Internal Revenue Service have opened major offices in suburban locations.

Why is this happening? History shows that accessibility is a key factor, i.e., the linkage between home, school, work, shopping and transportation centers such as airports, and train and bus stations.

In making the decision to relocate, executives say that accessibility to where existing employees live or where executives want to live is an important consideration. So long as the work force could get to a location and it was easily accessible to the company's customers and markets, the location had merit. Until recently, few places outside of the CBD met these criteria because road networks were not as advanced and bus and rail routes worked on spoke-like systems that centered on downtown.

Today, the interstate system is virtually complete. And because of easy money during the 1980s, there are many office parks at good sites with vacant buildings and reasonable prices. Rapid transit and high occupancy vehicle lanes can be used to move employees who ride the bus along the highways so that the CBD no longer has the clear advantage of location it once did.

In light of these compelling reasons to move, what can one do to keep companies downtown? Will the laws of supply and demand eventually take over and make competitively priced CBD office space more attractive? If so, it will be at the expense of

existing owners who believe that rents should command a 20% to 30% premium. Rents will continue to slide and values will continue to fall in the CBD.

Downtown can be a success story, only if we follow the successes of other cities such as Toronto, Fort Worth and Boston, where the CBD is a mixture of residential, entertainment, retail and office uses. The key ingredient that Dallas lacks is affordable land and buildings that would make residential development feasible.

There are two principal ways that this could occur. One is economic and long-term, the other is more direct and within the city's control. If we wait long enough, current trends that favor the suburbs will continue to erode the base of business in the CBD, forcing landlords to lower rents to compete. Eventually, through foreclosures, charge-offs and new ownership, much lower downtown rents will give it a competitive advantage so that, for economic reasons, businesses will return.

However, because of decreasing rents and lower values, it is unlikely that anyone will build a speculative office building in the CBD in the foreseeable future because competitive rents would not justify construction costs. Therefore, land will sit idle and continue to lose value.

A better solution that would create near-term demand would be to re-zone portions of the CBD, limiting height and density to promote uses compatible with residential development. I first heard this strategy proposed by the solution-minded real estate executive Taylor Boyd. He pointed out that because the entire CBD is zoned CA-1, which allows a 20-to-1 ratio of building to land area, all CBD landowners secretly believe that someone will build a skyscraper on their land. Because of this, potential land values are out of line — at \$40 to \$150 per square foot — and development will not be feasible for the foreseeable future.

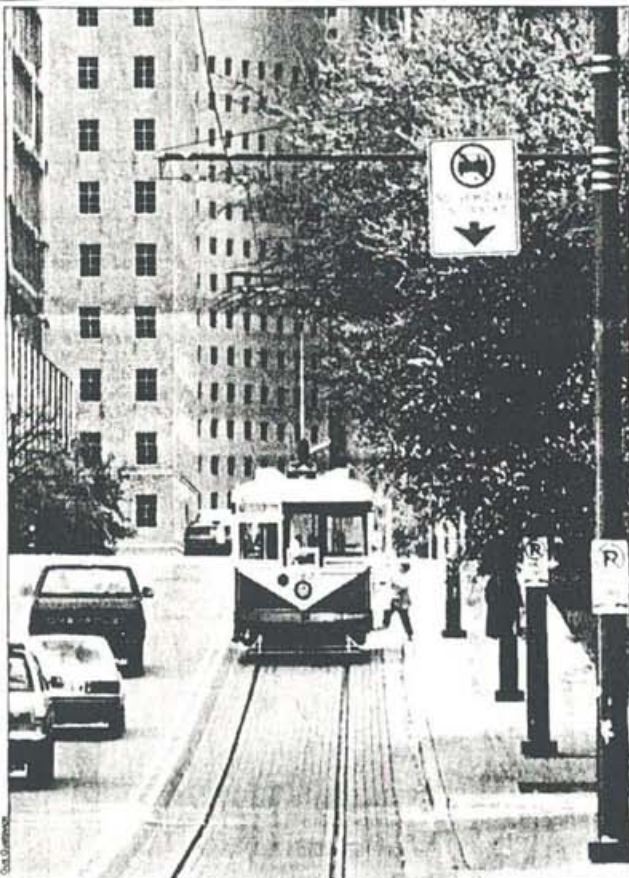
Zoning is a police power, given to government through the Constitution, to be used for the good of the whole. By reducing density in parts of the CBD, values should fall in these areas. Ultimately, as residential development occurs, it will build a base for retail services and offices again, thus creating new demand, rising rents and a greater value to the whole.

A study of other urban centers commissioned by the Central Dallas Authority in 1988-89 concluded that in urban areas

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The McKinney Avenue Trolley returns from downtown.

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where entertainment and restaurants pioneered new development, residential development followed when it was economically feasible. Dallas' own Deep Ellum is a good example of this. Today, land values (including old buildings) are selling at \$12 to \$20 per square foot. Widespread residential development is occurring and such units are being sold or leased in record numbers. The district is becoming a vibrant, 24-hour neighborhood drawing people from the entire Metroplex. Rents are increasing for retail space, values are improving and the city is capturing tax dollars.

Downtown has the makings of two such areas, one near the West End Historic District, the other around the Farmer's Market near Deep Ellum. Why not re-zone these areas to allow for residential uses following the Deep Ellum zoning guidelines? This

should ultimately create demand for existing office and retail buildings that would maintain values and increase the tax base of the entire CBD. The key to making this work is the creation of good zoning that reduces parking requirements and places reliance on DART, which is scheduled to begin construction on its rail line this year.

One must remember that there are certain things that the suburbs cannot offer such as older buildings with character, vibrant entertainment and dining districts, the Arts District Cultural Center, access to DART rail and bus lines, the largest concentration of employees in the region, and the convenient spoke system of highways. These are all characteristics that the Dallas CBD possesses. City leaders should act to create a strategy to use these assets to the city's advantage in attracting new residents and businesses to downtown.

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