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Public Open Space: Public and Private Benefit*

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Urban parks provide a competitive advantage for most forms of real estate—and the bump in value is measurable. The concept of focusing on leveraging public open space to create real estate value is not new in urban investment and redevelopment. But often lost in the approach to building-specific advantages and liabilities is the contextual value-add potential of open space.

Activity at the front door of a property—whether office, residential, retail, hotel, or other use—can sometimes hurt real estate value. But when properly nurtured and perceived as an amenity, activity can provide tremendous upside. Though it is a tale of urban revitalization that started decades ago, Bryant Park still demonstrates the ability of public spaces to create and add real estate value.

Thirty years ago, in response to a perceived public need for a public space worthy of the soon-to-be-renovated main branch of the New York Public Library, the city embarked on a multiyear effort to rejuvenate Bryant Park. Today, the wildly successful result attracts large numbers of people even on regular, nonevent days, and the park has featured prominently in the emergence of a more welcoming New York City. But often lost in the accolades is the tremendous impact the rejuvenated park has had on the real estate submarket.

After Bryant Park was completed and reopened in 1992, the park renovation and its new management structure created a strong amenity for the local office market. Maybe just as important as the addition of positive activities was the removal of undesirable park elements—among them an active drug trade, prostitution, a persistent urine odor, overflowing trash cans—which eliminated a drag on the submarket.

As a result, asking rents of buildings bordering the park outperformed those in surrounding submarkets. As better tenants were attracted, the credit profiles of buildings improved and a virtuous cycle ensued whereby the market value of real estate bordering the park increased. This was documented by Ernst & Young in its 2002 study *How Smart Parks Investment Pays Its Way*.

For example, the Grace Building on 42nd Street saw asking rents rise rapidly after the park opened—climbing more than 114 percent through 2002, according to the Ernst & Young study. Competitive submarkets, with-

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out the benefit of Bryant Park, did not fare quite as well over the same period: asking rents rose 67 percent at Times Square, 55 percent at Grand Central Terminal, and 41 percent at Rockefeller Center.

A $10-per-square-foot ($108 per sq m) increase in rent at the Grace Building translated to $13 million in additional rent for the 1.3 million-square-foot (121,000 sq m) building, says Dan Biederman, founder and head of the Bryant Park Restoration Corporation. Using a capitalization rate of 6 percent, the increase in value was $216 million, according to an owner of the Grace Building at the time.

With 26 buildings and 10 million square feet (930,000 sq m) of space in the district fronting the park—nearly all office space, except for the Bryant Park Hotel—Bryant Park created over $1 billion in real estate value, the owner calculates.

But that was a decade ago. A more recent example of the park adding value is Bank of America's $2 billion building, completed in May 2010. The 2.1 million-square-foot (195,000 sq m), 1,200-foot-tall (370 m) tower was developed and is managed by the New York City based Durst Organization. Located at the corner of 42nd Street and Sixth Avenue, the building is called the Bank of America Tower at One Bryant Park. Adopting the name of the park and capitalizing on its image and popularity were key to the development.

"Bryant Park is integral to the building's identity," says Jordan Barowitz, director of external affairs for the Durst Organization. "The building's principal facade is oriented to the park to maximize views from and of it. The park serves as the building's front yard, providing the ultimate amenity for its tenants. One Bryant Park's workers swarm into the park on nice days to eat lunch, take advantage of the park's programming, and clear their heads." In short, construction of a $2 billion building was in part prompted by a public amenity—public open space at its front door.

Continuing that trend, Hines announced in mid-June of 2012 a deal with JPMorgan Chase to finance construction of a 470,000-square-foot (44,000 sq m) office tower on Sixth Avenue overlooking Bryant Park and to be known as 7 Bryant Park.

But the value impact of public parks is not limited to Bryant Park, of course. Commenting on New York City's much-lauded High Line, Amanda Burden, the city's planning director, remarked in a June 2011 New York Times article that apartment prices in one building bordering the High Line have doubled since it opened. And big surprise then that Central Park—always a prized amenity in crowded New York City—delivers a premium for the typical sale of an apartment on the park; "more than double that for apartments in surrounding neighborhoods last year," according to a May 2012 article in the Wall Street Journal.

In September, CBRE Global Research and Consulting released a report, "Premiums on the Park," that finds a 44% rent premium for office properties bordering five New York City parks as compared to comparable buildings only one block away. Using Bryant Park, Madison Square Park, the High Line, Hudson River Park and Battery Park as case studies, Bryant Park had the highest percentage increase at 63%, with "on park" buildings' lease rates at nearly $100 per square foot, compared to approximately $60 per square foot one block away. The park-front rent premium at Madison Square Park is 54%, High Line is 51% higher, Battery Park is 39%

higher, and Hudson River Park's premium is roughly 14% higher.

In a press release, Pamela Murphy, Senior Vice President, CBRE Research, noted that, these parks clearly provide an economic benefit to landlords, including increased NOI, as well as an economic benefit to the City of New York.

But, New York is not the only city in which parks create real estate value. Responding to such examples in New York City and elsewhere, cities are becoming smarter when implementing urban revitalization strategies. Increasingly, public spaces are the centerpieces of such endeavors and are growing in importance and exposure as urban in migration continues.

In "Leveraging Real Estate Value with Public Open Space," an August 2010 white paper, Matthew Wetli, an associate at St. Louis–based Development Strategies, noted a number of specific examples:

- New Town St. Charles in suburban St. Louis: Land premiums for lots fronting canals are roughly 50 percent.
- Upper Albany, Columbus, Ohio: Homes fronting the village green garner 25 percent premiums.
- Clayton, Missouri: Office properties in the business district fronting Shaw Park "achieve the highest lease rates in the St. Louis region, and operate at high occupancies."

Wetli also cited Texas A&M University professor John L. Crompton, who has found that public parks in the Dallas/Fort Worth region have a measurable effect on real estate values. Crompton's study "demonstrated a 20 percent property premium for lots within 100 feet of parks, a 10 percent premium at 300 feet, and a negligible premium at roughly a quarter mile," Wetli wrote.

Although not all parks will have such a measurable impact—location, maintenance, local neighborhood characteristics, and other factors also play a role—there is certainly enough documented research to no longer question the power of public space to create real estate value. However, the careful reader may question whether it is the "public" nature of the park, so much as it is that it is open space creating the value.

Other questions come to mind such as Is there a different premium for passive parks versus active playgrounds and etc? Again, further research would be needed to distinguish whether a "public" park space delivers a higher premium than private, or common open space. Builders have known for a long time that the lots backing up to restricted woods—whether community owned, privately or publically owned—command a "lot premium."

In 2010, a Trust for Public Land study entitled, "The Economic Benefits of Denver's Park and Recreation System," attributed $4.1 million in increased property tax revenue "from the increase in value of certain residences because of their proximity to parks." The study also attributed over $3 million to the city of Denver from "sales tax receipts from tourism spending by out-of-towners who came to Denver primarily because of its parks."

On a larger scale, a 2012 study, "Amenity Values of Proximity to National Wildlife Refuges," by researchers at North Carolina State University for the U.S. Fish and Wildlife Service, cited an increase in value of homes in urbanized areas located in close proximity to a National Wildlife Refuge. Specifically, homes located within one-half mile of a refuge and within eight miles of an urban center realized values that are 7-9% higher in the Southeast region, 4-5% higher in the Northeast region, and 3-6% higher in the California/Nevada region.

Ben Donsky, project manager for Biederman Redevelopment Ventures (BRV), the private consulting company run by Dan Biederman of the Bryant Park Restoration Corporation, notes another specific example—Museum Tower in Dallas. "In addition to adding value to existing assets, great public spaces create better development opportunities," he says. "The new 42-story Museum Tower in Dallas's Arts District, for instance, was originally proposed in 2007 following the announcement of $40 million being committed to the development of Klyde Warren Park."

This five-acre park, Donsky explains, is currently being built as a deck over the Woodall Rodgers Freeway; it will include a promenade, a botanical garden, a children's garden, a pavilion, a stage, an iconic fountain, and other features. "It's hard to imagine a luxury residential building bordering a submerged expressway, but easy to imagine such a project next to a world-class park," he notes.

In another BRV project, Prudential has announced plans to build an office tower in Newark, New Jersey, across the street from the six-acre Military Park, which is being revitalized. The Newark-based Berger Organization LLC, which owns most of the property on the Park Place side of the nearly triangular park, in a recent press release, specifically cited revitalization of the park and noted its potential for value creation.

Donsky notes that owners are "thinking more broadly about public space, understanding that it's not just parks and plazas." Equity Office, the private owner of South Station in Boston, a major northeastern transit hub, is in the process of transforming the building's public spaces into an "indoor park" with an eye toward improving station activity and retail sales, which in turn will boost rents, says Donsky.

BRV was hired to help energize the space. BRV was also brought in to advise on programming the public space at City Place Mall, a traditional shopping mall in Silver Spring, Maryland, with the goal of retaining and attracting tenants. The Mall is right next to a revitalized retail Life Style Center with private, but open to the public, open space, water fountain outdoor eating, theaters and more, which activity does not currently connect shoppers and visitors to City Place and its traditional stores.

A high-quality public realm can attract more people, which translates into more shoppers and revenue. Nick Egelanian, president of SiteWorks Retail, an Annapolis, Maryland–based retail consulting firm, also recognizes the role high-quality public spaces play in creating value at retail centers. "Without good public spaces, you're relying entirely on the quality of the shops alone, and very few places work on the quality of shops alone," Egelanian says.

Specialty retail thrives on emotion, on the ability of shops to convince a shopper that they should spend their precious time and money in their place of business. Likewise, he adds, "Good public spaces evoke a strong emotional reaction." This is the key to specialty retail and is why retailers should also consider the value of including and building in the cost of public spaces in differentiating their real estate and making it the chosen destination over the countless other options vying for consumers' time.

Developers and public officials alike, as well as organizations such as the Urban Land Institute, NAIOP and the International Council of Shopping Centers, though geared toward real estate and land use, would be well advised, in their own self interest to focus on public spaces by:

- Promoting intelligent densification and urbanization. The relationship between a high quality of life and open space is undeniable. A dynamic society generates a thriving economy, and public spaces add to urban dynamism.
- Creating resilient communities. Adapting and reusing existing real estate to eliminate obsolete space creates thriving communities. Using open space as a catalyst or amenity for this reuse makes sense economically and socially.
- Understanding demand and market forces. Not all public space will automatically be successful in creating real estate value. Understanding what the market wants short term versus what it needs long term is still critical. Balancing public and private interests in terms of how they affect land use decisions and development is also of utmost importance.
- Connecting capital and real estate through value. Generating value in the built environment that is greater than its cost is a cornerstone of leveraging public space to create real estate value. This is also among the best ways to ensure the attractiveness of real estate as an investment.
- Integrating energy, resources, and uses. Public space helps reduce the negative impact of the built environment on natural resources and the climate.

Jonah Lehrer notes in his book *Imagine: How Creativity Works*, "This is the purpose of cities: the crowded spaces force us to interact." Crowded spaces become that way because people want to be there.

Crowds in the real estate realm translate into demand, and demand leads to value creation. Although public space is not a panacea for urban ills, it has the potential to be another arrow in the quiver full of real estate development and investment strategies.