

## The Market for Smart Growth

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Studies on consumer demand for smart growth products, as well as consumer surveys conducted by Robert Charles Lesser & Co. LLC, find that at least one third of the consumer real estate market prefers smart growth development. Moreover, the share of the home buyer market that prefers smart growth development is growing due to demographic trends and changing buyer preferences. The share of the consumer housing market that prefers smart growth over more conventional development formats is difficult to gauge, given the many ways of defining the various land uses that could be described as smart growth and the limitations of the research to date. While it's difficult to forecast with accuracy just how much the market for smart growth real estate is growing, there is no doubt that the size of the market is increasing.

Smart growth development can include New Urbanism, transit-oriented development, and urban and suburban infill communities. For the purposes of this paper, smart growth is defined as development that is compact, has less impact on the natural environment<sup>1</sup> than conventional “sprawl”<sup>2</sup> land use patterns, is walkable and often mixed use, and offers a range of housing choices.

Some studies seem to confirm the conventional wisdom that most Americans prefer low-density, automobile-dependent, suburban, single-family development. For example, according to a 2002 survey conducted by the National Association of Home Builders and the National Association of Realtors®, consumers have a clear preference for suburban versus other types of developments. That report noted, “American homebuyers prefer large houses and large lots and are willing to live in distant suburbs and accept longer commutes in order to have more space inside and outside the home,” concluding that 76 percent of Americans prefer a conventional, single-family, detached

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<sup>1</sup> Smart growth development uses less land to accommodate the same measure of development as conventional land use patterns, preserves natural areas, or includes natural areas and open space.

<sup>2</sup> In this case, the term “sprawl” describes conventional suburban development patterns characterized by low-density, automobile-dependent, and almost exclusively single-family and strip commercial development.

home.<sup>3</sup> However, other studies indicate that housing preferences are more complicated and that consumers make trade-offs when thinking about where to live. These trade-offs involve many decisions, such as whether it is better to have a larger lot or a shorter commute to work, or a larger home or a better quality home, to be closer to shopping and services or spend more time driving, etc. Other research indicates that, rather than there being a single dominant housing preference, there is a significant market for a variety of housing alternatives.<sup>4</sup> For example, about 37% of respondents to a 1998 Professional Builder survey indicated that they actually prefer higher density housing in the form of smaller lots and/or clustered development.

The 2004 National Survey on Communities, undertaken by the National Association of Realtors® and Smart Growth America, found that about 61 percent of people who indicate they will buy a house in the next three years would prefer to buy in what they described as a smart growth community.<sup>5</sup> In that survey, respondents were given the opportunity to choose between two options, A and B, each with a different set of characteristics.

**Community A Description**

Single-family homes on large lots  
 No sidewalks  
 Drive to shopping and schools within a few miles  
 Commute to work in 45 minutes or less  
 Public transportation distant or unavailable  
**45%** of survey respondents choose this "package"

**Community B Description**

Mix of single-family and other housing  
 Sidewalks  
 Shopping and schools are close and walkable  
 Commutes are less than 45 minutes  
 Public transportation is available  
**55%** of survey respondents choose this "package"

Community A features only single-family homes on large lots, lacks sidewalks, has shopping and schools a few miles away, and offers commutes to work of 45 minutes or more. Public transportation is distant or unavailable. In contrast, Community B has a mix of single-family and other housing, with sidewalks, shopping and schools that are close and walkable, commutes of less than 45 minutes, and nearby public transportation. Overall, 55% of survey respondents selected Community B (the smart growth community), and 45% selected A (the conventional suburban community).

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<sup>3</sup> National Association of Home Builders, *Smart Growth, Smart Choices*, 2002. [http://www.nahb.org/assets/docs/publication/smart2002\\_814200293041AM.pdf](http://www.nahb.org/assets/docs/publication/smart2002_814200293041AM.pdf). Accessed March 5, 2009.

<sup>4</sup> Dowell Myers and Elizabeth Gearin, *Current Preferences and Future Demand for Denser Residential Environments*, University of California, 2001.

Those that selected Community B considered the convenience of being able to walk to shops and restaurants and being closer to work most important, while those who selected Community A primarily wanted a larger lot. Commute time was a major factor for many respondents; about half the respondents would choose a smaller lot if it meant a shorter commute. In considering the trade-off between lot size and having to drive to stores and restaurants, however, about 30 percent would choose being closer to stores and restaurants and living on a smaller lot. From these responses, it appears that about a third of the market would choose the smart growth community in a suburban location comparable to other suburban neighborhoods. More would choose the smart growth community if it were located closer to employment than the conventional alternative, thereby reducing commute time, which increases the smart growth preference to 61 percent.<sup>6</sup>

#### *New Urbanism and Smart Growth Demand*

New Urbanist and smart growth designs and products are similar, and many proponents consider New Urbanist developments to be an implementation of smart growth principles and policies. New Urbanist developments are typically compact communities that connect with surrounding neighborhoods, integrate multiple land uses, have a definable neighborhood center and safe streets, and protect regional open spaces.<sup>7</sup> While many New Urbanist communities occur on greenfield sites (e.g., Celebration in Orlando, Florida; and The Kentlands in Gaithersburg, Maryland), they have also been built on brownfield sites (e.g., Baldwin Park in Orlando) and in urban locations (e.g., Glenwood Park in Atlanta). New Urbanist developments typically have smaller lots that bring houses closer together and town-center retail districts, parks, and community open spaces that facilitate walking for at least some aspects of daily living, such as recreation, dining, and grocery shopping.

From the perspective of understanding market depth, surveys measuring the interest in New Urbanist communities can play an important role in studying and understanding the market for smart growth. New Urbanist developments can be studied historically and longitudinally vis-à-vis their conventional competition to gauge their market acceptance

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<sup>5</sup> Belden Russonello & Stewart, *The 2004 National Community Preference Survey*, National Association of Realtors and Smart Growth America, <http://www.brspoll.com/Reports/Smart%20Growth.pdf>. Accessed March 5, 2009.

<sup>6</sup> See Belden Russonello & Stewart.

and financial performance. Due to their compact design, pedestrian friendliness, protection of natural features, and other smart growth approaches, they can serve as a proxy in lieu of national benchmark data on the full spectrum of smart growth market absorption. With that in mind, it's significant that many consumers not only prefer New Urbanist communities, they are in fact willing to pay a premium to live in such communities.<sup>8</sup>

Proprietary consumer research conducted by Robert Charles Lesser & Co. LLC (RCLCo) in various U.S. real estate markets has consistently found that about a third of respondents, given the option, would seriously consider New Urbanist communities and housing products in selecting a new home. The majority of the RCLCo studies were conducted for builders and developers as input to planning new smart growth developments. They include consumer surveys in Atlanta; Phoenix; Denver; Provo, Utah; Albuquerque, New Mexico; Boise, Idaho; and Chattanooga, Tennessee conducted in the early part of this decade,<sup>9</sup> and more recent studies conducted for builders and developers with projects in Orlando; Phoenix; Charlotte, North Carolina; and Savannah, Georgia. Some of the developments the studies were conducted for were urban (e.g., Chattanooga and Albuquerque), and some were suburban (e.g., Atlanta, Boise, Charlotte, and Orlando). The most recent studies were conducted in 2005 and 2006 for projects currently under development. In all the surveys, the questions generally focused on determining consumer interest in various types of communities and real estate products, including types with smart growth characteristics.

RCLCo has found that the interest in smart growth products, as with most real estate, varies by geography, economic and demographic fundamentals, and buyer profiles. In RCLCo's research, life stage and income are key variables in the degree of interest in New Urbanist developments, with different aspects appealing to different audiences. For example, while respondents at virtually all life stages would like to live within walking distance of a town center, single-person households indicate the greatest interest. Respondents at most life stages, except for growing families, would be willing to accept a home with smaller square footage for one with a higher level of finish. Those with the highest acceptance are empty nesters and singles. Since the share of family

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<sup>7</sup> Congress of the New Urbanism, "Charter of the New Urbanism," <http://www.cnu.org/charter>. Accessed March 5, 2009.

<sup>8</sup> Eppli, M and Tu, C. *Valuing the New Urbanism*, Urban Land Institute, 2000.

<sup>9</sup> "Consistent market found for NU," *New Urban News*, January/February 2001.

households in the U.S. is shrinking, and the number of single-person and empty-nester households is increasing, the market for smart growth products appears to be growing. Similarly, interest in New Urbanism is strongest among those over age 60 and those under age 40. The desire to be close to a town center and be able to walk to shops, restaurants, and other amenities is strongest among those aged 50 and above because they value convenience and sociability. The aging of the population in general and the baby boomers in particular is further indication that the size of the market for these living circumstances is growing. The aging of the baby boomers is likely to influence the size of the market, as their impending change in life stage drives them to make different housing choices than in the past. Given increased awareness of smart growth and New Urbanist communities, shrinking household sizes, demonstrated preference by a growing portion of all buyer types for a more pedestrian-friendly product, shifts in the underlying economy and its impact on employment location and home location decisions, and the aging of the baby boomers, it is clear that the size of the market for smart growth developments is increasing.

### *Demographic Impacts*

An examination of the survey evidence relative to consumer housing preferences in the context of demographic projections demonstrates that the size of the market for dense walkable communities is increasing. This is due to the aging of the baby boomers and their changing housing preferences, the varied interests of Generation X consumers, the entry into the housing market of the echo-boomers/Generation Y, and changing household compositions (e.g., more married couples without kids, more people living alone, and more single parents). Younger home buyers (under age 35) are more ethnically diverse than older consumers. They are now moving into the age range where homeownership rates are higher, and many of them prefer urban/infill locations as they seek more exciting environments with a greater sense of place. These younger homeowners, including those with families, are more accepting of density, especially if it gives them better designed homes and communities that are attainable financially. They are looking beyond conventional home products, seeking more architectural and less “cookie-cutter” approaches to design.

Meanwhile, about 31 percent of the growth in homeowners this decade is expected to be homebuyers aged 45 and older, many of whom have indicated a preference for denser,

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more compact housing options.<sup>10</sup> A change in life stage is one of the greatest predictors of when households will seek new housing. Developers and builders are anticipating the impact of the maturing baby boom generation on the demand for new housing that suits their new life stage, as there are more than 78 million Americans born between 1946 and 1964. Some baby boomers are now nearing retirement age. Given the diversity of that generation, no single real estate product best suits their needs. However, there is evidence that as these households mature, more of them will be interested in higher-density housing. So, in addition to the conventional, leisure-focused retirement community, other models, including new urbanist communities, will appeal to maturing boomers.

Although boomers are not expected to approach aging in the same way as earlier generations, it's important to note that historically, seniors have gravitated to retirement communities to make new friends and enjoy an active social life. They've wanted to live in a community that puts them close to essential services, in a low-maintenance property that frees them to travel, socialize, and pursue new interests. New Urbanist and smart growth designs, with their front porches, pocket parks, and town-center retail, are designed for the sorts of social interaction and convenience that many seniors have historically sought out. Although some features, like front steps or second-floor master bedrooms, may be a turn-off for older seniors, just like the detached homes in retirement communities, the small lots in traditional communities need less maintenance. As in conventional retirement communities, residents can pay separately for maintenance.

New Urban communities, with well-connected street and sidewalk networks, walkable designs, and amenities like grocery stores, banks, parks, restaurants, and health clubs, are designed to support the convenient and healthy lifestyle that RCLCo research suggests boomers are seeking. A recent AARP study estimated that 80% of the leading edge boomers plan to continue working in their retirement years, with many embarking on second careers.<sup>11</sup> Since few boomers will consider themselves "retired" and are likely to continue in the work force long after reaching typical retirement age, living in or near a new urban town center with executive offices or live-work units may also be an important lifestyle amenity. For such boomers, the town center may replace the golf course as the most important community amenity. The "third place" is a key lifestyle

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<sup>10</sup> Dowell Myers and Elizabeth Gearin, *Current Preferences and Future Demand for Denser Residential Environments*, University of California, 2001.

amenity – throughout the U.S., third places such as coffee shops and bookstores have proliferated. In conventional retirement communities, the third place tends to be a community center. Those community centers will likely need to evolve in sophistication to capture the retiring boomers' interest. A town-center amenity that can be conveniently accessed on foot, rather than only by car, enhances its fit with the desired lifestyle.

The physical environment in which we live affects our health. Rising health care costs now consume 16 percent of the nation's economic output, the highest proportion ever.<sup>12</sup> The impact of the built environment on quality of life is beginning to be better understood and is particularly relevant to marketing to the boomer generation. A significant segment of that market is seeking a “lifestyle of health and sustainability”<sup>13</sup> in their new housing and community. Some planners and health experts have persuasively argued that the proportion of overweight American increasing from 24% in 1960 to 64% in 2000 is a direct result of the dominance of low-density, automobile-dependent suburban development.<sup>14</sup> Conversely, traditional community designs that take into consideration such features as internal and external connectivity, access to parks and open space, sidewalks and trails, mixing of uses, and other factors that contribute to “healthier designs” reduce automobile dependence and contribute to healthier lifestyles. This is not merely important in terms of its impact on health, but for builders and developers to consider from a marketing perspective in attracting the maturing boomer population to new home communities.

Examples of New Urbanist communities already attracting retirees include Amelia Park on Amelia Island, Florida, a 421-unit traditional neighborhood development with 70,000 square feet of retail. Although not age restricted, 80% of Amelia Park buyers are over age 50, with some in their 70s, 80s, and 90's. About 40% of residents are partially or fully retired. Amelia Park is creating an infrastructure of services that allow residents to age in place, such as home health care and a telemedicine system linking residents with their doctors. Another example is Meadowmont, a New Urbanist community in Chapel Hill, North Carolina, that offers housing for families as well as seniors. The housing

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<sup>11</sup> Roper ASW, *Baby Boomers Envision Retirement II*, AARP, 2004. [http://assets.aarp.org/rgcenter/econ/boomers\\_envision.pdf](http://assets.aarp.org/rgcenter/econ/boomers_envision.pdf). Accessed March 9, 2009.

<sup>12</sup> Marc Kaufman and Rob Stein, “Record Share Of Economy Spent on Health Care,” *Washington Post*, January 10, 2006.

<sup>13</sup> Green, Brent, *Marketing to Leading-Edge Baby Boomers*, 2<sup>nd</sup> ed., Paramount Market Pub., 2005.

<sup>14</sup> Howard Frumkin, Lawrence Frank, and Richard Jackson, *Urban Sprawl and Public Health*, Island Press, July 2004.

located over the retail in its town center has proved popular with seniors who have chosen to move there in lieu of conventional retirement housing. At the Kentlands, a multigenerational New Urbanist community in Gaithersburg, Maryland, a senior housing development near its town center appeals to seniors who need less space, don't want to be bothered with maintenance, and want to be near services and social outlets. In suburban Atlanta, Silver Springs Village is a New Urbanist active adult community that has sold out.

### *Geography of Demand*

Where will this increase in demand for smart growth housing be accommodated? RCLCo has found there is plenty of evidence that the country is experiencing an urban renaissance and that there is more demand today than five years ago for conveniently located new infill housing, growth projections indicate that "edge" counties are growing faster than "core" counties in growing metropolitan areas.<sup>15</sup> Therefore, much of the demand could be accommodated in smart growth developments in greenfield locations as well as infill projects. There has been a lot of speculation that maturing boomers will return to urban areas in large numbers as they retire to be closer to urban amenities. So far, the data indicate that only about 11 percent of retirement-age suburbanites have recently moved back into central cities.<sup>16</sup> Given the greater tendency to move suburb to suburb, the demand for smart growth housing will be greater there.

### *Summary*

The discussion above suggests that there is an existing and growing market segment that prefers smart growth types of developments. How well has the market kept up with this increasing demand? There is no perfect source of data from which to evaluate the supply of this product type, but there is reason to believe that it has not kept up with demand. If it is true that at least a third of the market prefers these types of developments, and the housing market is producing on average about 2 million units

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<sup>15</sup> For more on the geography of housing starts in core communities, see: John V. Thomas, *Residential Construction Trends in America's Metropolitan Regions*. U.S. Environmental Protection Agency (document number EPA 231-R-08-001), 2009. [http://www.epa.gov/smartgrowth/pdf/metro\\_res\\_const\\_trends\\_09.pdf](http://www.epa.gov/smartgrowth/pdf/metro_res_const_trends_09.pdf). Accessed March 9, 2009.

<sup>16</sup> Engelhardt, Gary V., *Housing Trends Among Baby Boomers*, Research Institute for Housing America, 2006.

annually,<sup>17</sup> about 600,000 of those units would have to be considered “smart growth” to meet market demand – and that does not appear to be the case.

New Urbanism and other smart growth development strategies represent product, project, and production shifts. For New Urbanist and other smart growth models, land assembly and land development, lot creation and finishing, land planning and project programming, builder selection, infrastructure layout, and deployment all require procedures that differ markedly from conventional development. However, the real estate development industry has historically been very slow to adapt and adopt new technologies and approaches to development. For example, the Partnership for Advancing Technology in Housing estimated that it takes 10 to 25 years for new technology to reach full market penetration.<sup>18</sup> When considering land development and project programming, it would be reasonable to assume a similar duration of diffusion.

Demand for housing does not necessarily taper off or dissipate when technology or innovative products are lagging in the marketplace. In fact, because housing is a fundamental need, households can rarely be as choosy as they might be with other products. More often than not, homebuyers consume what housing is available rather than what housing is ideal. Just because people have bought the types and styles of housing they’ve been offered does not indicate their preferences.

One way of explaining the characteristics of housing demand is income elasticity, which is an indicator of the incremental change in the type of house and location demanded as incomes rise or fall. Elasticity is measured on a scale of 0 to 1 – the higher the number, the more impact a change in income has on the quantity demanded, or the more “elastic” is demand. Values below 0.5 are said to be “inelastic,” or less responsive to a change in the independent variable (income). Studies show that the demand for housing is actually quite inelastic and does not vary significantly as incomes either rise or fall. RAND estimates the income elasticity for owners to be 0.45 and for renters to be 0.19. In other words, for every unit value of income that increases or decreases for owners, there is a much lower related increase or decrease in the quantity of housing demanded.<sup>19</sup> For renters, income increases and decreases have an even more muted effect on housing demand. Hanushek and Quigley. came to similar conclusions in their

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<sup>17</sup> Based on 2005 actual new housing starts and 2006 projections.

<sup>18</sup> Partnership for Advanced Technology in Housing, “About PATH.” <http://www.pathnet.org/sp.asp?id=15221>. Accessed March 9, 2009.

<sup>19</sup> Mulford, John. *Income Elasticity of Housing Demand*, Rand Corporation, 1979.

benchmark 1980 longitudinal study.<sup>20</sup> While these studies test primarily for the relationship between income and housing, they help us to understand that housing demand is fairly “fixed.” In other words, we know households need housing and will consume housing despite income constraints. It is therefore unlikely that they would choose to not consume housing just because their preferred housing choice was not available in a particular market. Thus, existing patterns of housing consumption are not a true indicator of underlying housing type preference.

People need housing and often have to take what is available. The opportunity for builders and developers is that they may gain competitive advantage in the marketplace by addressing the unmet demand for particular types of housing, including smart growth. People will accept the product they’re offered if they have no other options. If a builder or developer offers choices that better meet consumer preferences, they will have an advantage over other providers, especially where supply is limited as with smart growth products.

While there is insufficient empirical data with which to test the depth of the unmet demand and undersupply, the analysis suggests that providers are delivering far fewer products to the housing market than is economically rational with respect to smart growth. From a builder or developer perspective, this represents significant opportunities.

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<sup>20</sup> Hanushek, Eric, and Quigley, John. M. “What is the price elasticity of housing demand?” *Review of Economics and Statistics* 62(3) 1980.