

Downtown Schools & Real Estate Development

Professor Gerard Mildner



In recent months, the Center for Real Estate has been looking at the connection between the development of schools in downtowns and regional centers. We see the issue of downtown schools centered on three central questions:

1. What role does the presence of downtown schools have on the demographic composition of American downtowns?
2. How should school districts plan downtown schools when enrollment demand is uncertain?
3. How should downtown schools be redeveloped given the higher cost of downtown land?

Land Prices and Regions

The discussion of downtowns in the United States is dominated by two long-term trends or patterns in metropolitan economies.

First, one of the characteristics of the urban economy is the large difference in land prices between rural areas, suburbs, central cities and downtowns. Getting good data on land prices is quite difficult because of the small number of transactions, the unique characteristics of each site, and the enormous fluctuations in prices over the past 5-10 years. However, if we take Portland as an example, Metro tells us that land prices vary by about ten-to-one between rural land and land inside the urban growth boundary.

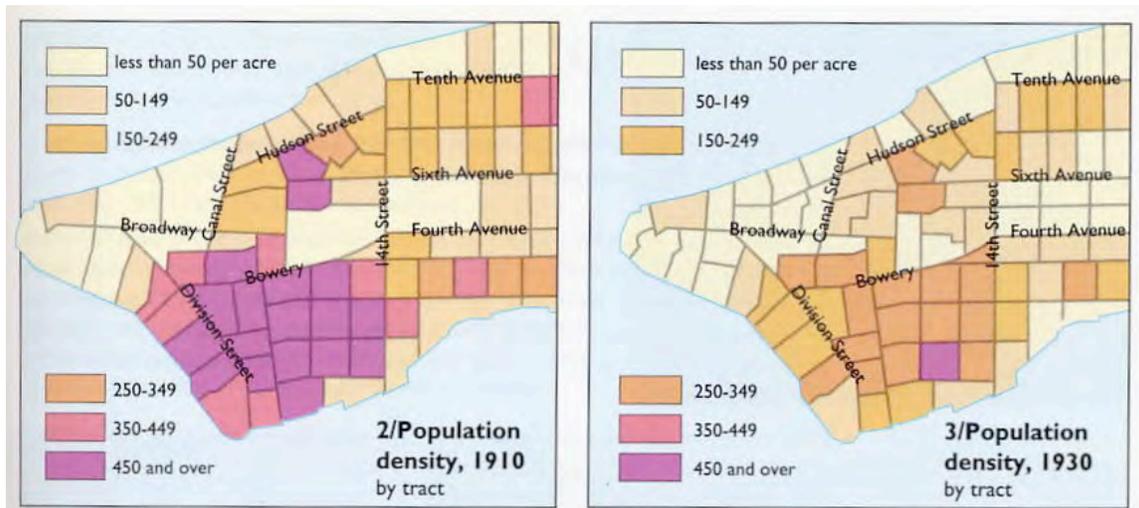
And at a national level, Professor Edwin Mills of Northwestern recommends using a rule of thumb of a 30% price differential per mile for land within metropolitan areas. As a result, for a region where there is a 20-mile difference from the CBD to the countryside, that represents a 200-times difference in land prices. While land prices vary in much more complex ways than this and there are often localized peaks in suburban downtowns, the broad trend is for land prices to peak at the metropolitan central business district.

Those differentials explain why we tend to build ranch homes in the countryside, two-story homes in the suburbs, low-density apartments in inner city neighborhoods, and residential towers in downtown settings. Consumers and developers respond to the differences in land prices and produce housing, office and industrial space in different configurations in cities versus suburbs.

We should expect the same response to land prices in school construction, too. That is, it makes sense to build lower density schools where land prices are low, but it makes sense to economize and build at high density where land prices are higher.

Suburban Sprawl and Downtowns

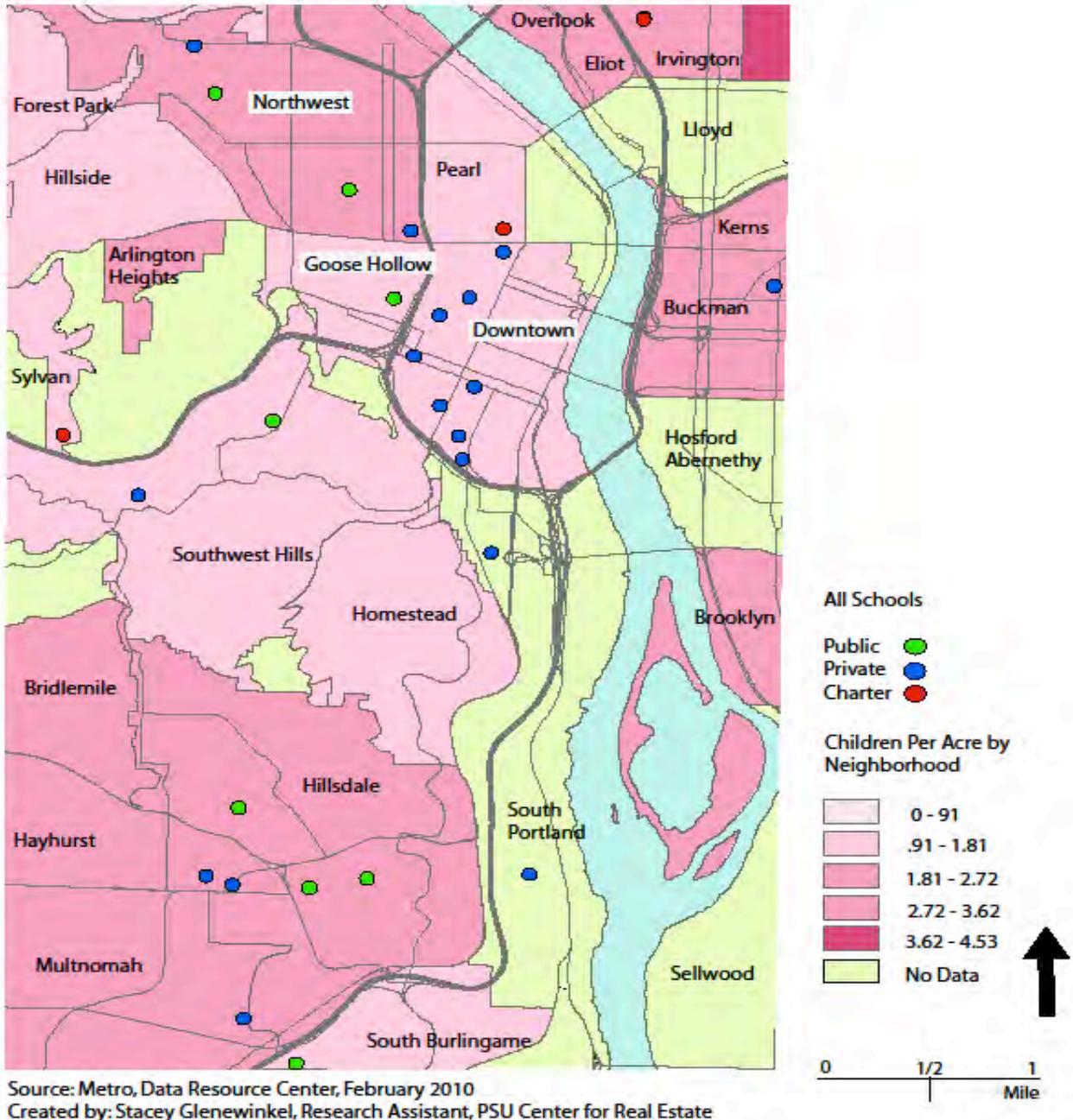
The second point to make regarding the urban structure of cities is that for a host of reasons, metropolitan areas have decentralized, producing what many call suburban sprawl. Those reasons include lower transportation costs from automobiles, higher household incomes, preferences for detached houses with large lots, problems finding new housing in existing neighborhoods, redlining barriers to inner city housing, and problems with public services and taxes in inner cities. In any case, this is a very long term process, dating back to the early 1910s, when the lower east side of Manhattan saw dramatic reductions in its population density, when neighborhoods in Brooklyn and Harlem became connected to New York's subway system.



The decentralization of U.S. metropolitan areas has reduced the population in central cities, leading to low enrollment demand for K-12 education, even while many of those cities have remained important employment centers. Portland, like most U.S. cities, has seen a thinning out of its population in close-in neighborhoods, while at the same time experienced a rise in population density in the suburbs.

Child Density By Neighborhood, All Schools

Urban Schools Initiative by Dr. Gerard Mildner
A Gibbons Trust Project



Source: Metro, Data Resource Center, February 2010
Created by: Stacey Glenewinkel, Research Assistant, PSU Center for Real Estate

Recent years have brought a revival of the fortunes of U.S. central cities, but the overall pattern of decentralization and declining school enrollment remains. Many of the new residents of our central cities are single adults, childless couples, empty nesters, and couples with children below school attendance age. As enrollment falls and fewer families live in downtowns, school districts have responded by closing many of their downtown schools. In turn, the lack of schools deters future

settlement by families, creating something of a chicken and egg problem. The higher price of family-sized units downtown, and the higher cost of school construction there exacerbate the problem.

Yet while the overall tendency has been for downtowns and newly revitalizing areas like the Pearl District and South Waterfront to be occupied by childless households, there are children living there. After all, the presence of young adults is a good predictor of births! According to data from the PSU Population Research Center, the number of births to families in the River District has risen from 22 per year in 2000-03 to 48 per year in 2005-08. They further estimate that 252 children live in the district today, yet only 54 were enrolled in Portland Public Schools in 2006

There are at least three possible explanations for this anomaly. One, River District parents are disproportionately sending their children to private schools. Two, the children in the River District are younger than average, and the growth in the number of children is the beginning of a trend. Or three, the children in the River District are younger than average, and parents are deciding to leave the River District when they reach school age. Likely, all of these factors are present.

Build it, But Will They Come?

One of the difficulties for long-range planning by school districts is the uncertainty of population growth. While Metro has ambitions to redevelop Portland's central core and suburban town centers, absent property-specific policies, they cannot determine who will live in the units that are built. Policies that are designed to accommodate family-oriented housing, such as requiring developers to include larger numbers of two- or three-bedroom units in the downtown, may result in those units being occupied by unrelated adults, rather than families, since the development cost and required price of such larger units may exceed what families can afford. On the other hand, building smaller housing units may meet the affordability needs of single-parent households.

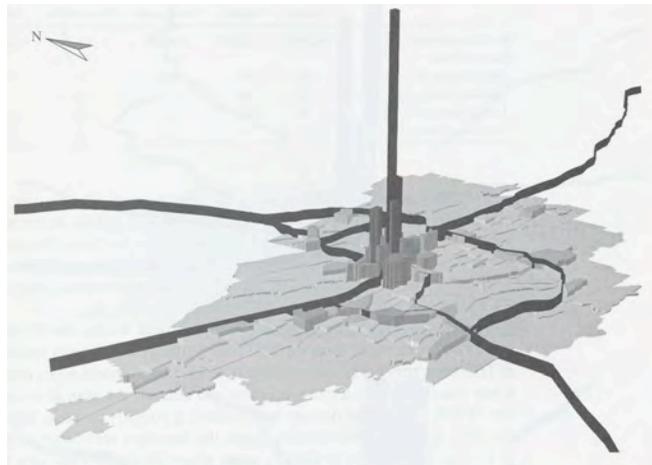


One strategy to mitigate that risk would be for the school district seeking to initiate a downtown school to lease space rather than build a new, school-only property. An example of this is developer Ed McNamara's Pearl Family Housing project at NW 13th Avenue and Raleigh Street. The building will

have 138 affordable housing units, with the bottom floor leased by Portland Public Schools. Should demand for families with elementary school-age children grow, the school district can extend its lease, but should it not materialize, it could cancel the lease. While this works against the current preference of school districts to own property, leasing creates the ultimate flexibility for the end user, while it creates a desirable credit tenant for developers.

A second mitigation strategy for a school district facing uncertain demand would be to pick a school location at the intersection of multiple transit lines, creating the opportunity for a larger catchment area for the school. Should families move to the downtown area and the school become overcrowded, then the catchment area could be shrunk, steering the excess demand to the surrounding neighborhood schools. If families do not pick a downtown setting, then the catchment area can remain large. Downtowns have the unique advantage that a very large number of transit lines and roads meet there.

A third mitigation strategy might be to create an open enrollment model for a downtown school, that matches the commuting distance that downtown workers already experience. An employment center like downtown Portland or downtown Beaverton attracts workers from greater distances, often crossing municipal and county boundaries. Recognizing this, childcare providers make their slots for pre-K children open to all families, creating an opportunity for downtown workers to commute with their children. This policy creates a benefit for some parents to visit their children during the day and can create a convenient commuting option for the family. It could also serve to reduce or eliminate school busing.



This commuting pattern is quite common for other downtown institutions. Downtown libraries and museums could not survive based upon downtown customers only. At St. Michael's Catholic church in downtown Portland, only 35% of the parishioners live in downtown. Most travel from the suburbs. The International School, a K-5 language-immersion school located in downtown Portland, finds that only 8% of its students come from downtown. If you add in the west side of Portland, the number rises to 27%, leaving 73% of the demand coming from the suburbs or across the river. According to its director, many of the parents are downtown workers who deliver their children to school en route to work.

While the concept of an open enrollment school for children challenges our notion of community-based, neighborhood schools, this may be an attractive option for parents, contrary to the proposed no-transfer policy being considered by the Portland Public School District. And if a school needs a minimum threshold number of students in order to be viable, offering slots for commuting parents may be critical for starting a new downtown school. This model may require school districts across the region to form partnerships and cost-sharing agreements. It may require the school to be a charter school.

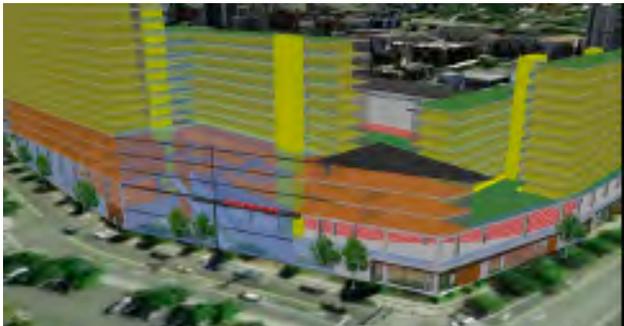
Redevelopment Options for Schools

If there is a market, how should downtown schools be developed? While the current recession makes any real estate development difficult in the near term, the longer-term trend to live and work in American downtowns may create some development opportunities for school districts that hold significant property assets in those areas.

One option is to reconfigure the property that has been set aside for schools in a way to release land for mixed-use development. This option might be a new policy to close the schools in downtowns and accept that the preference of non-family households to live downtown is a permanent phenomenon. According to this view, downtown neighborhoods serve different demographic groups than families. The school closures would free up valuable school property for other uses. The conversion of Shattuck Intermediate School into a building for Portland State is an example of that kind of policy. Many school districts have followed the policy of closing inner city schools for years. While any school district facing declining enrollments across the board will need to consider school closures, choosing to close downtown schools would seem to harm a potential new economic growth center for the school district and the region.

A second option might be to move the downtown school to a nearby site that is cheaper, freeing up the more valuable school site for commercial or residential purposes. We experienced a version of that in 1950 when Lincoln High School was relocated from Broadway and Market Street in downtown Portland to the Goose Hollow neighborhood, where it now occupies the former site of the Jacob Kamm mansion. Another example of this thinking was the ill-fated proposal that considered moving Lincoln High School to the Conway site in Northwest Portland, although it was questionable that might have been a less expensive option.

A third option is to make downtown school buildings multiple stories, so that more land on the school property can be available for development. That development might occur through a sale of property or a long-term land lease to a developer. Last summer, a team of PSU real estate students proposed such a development for Lincoln High School, building a new building on the western half of its current site, allowing for new residential development on the eastern portion.



A fourth option might be to convert the existing school's sports and recreation curricula to emphasize indoor sports over to field sports, which tend to require significant amounts of land. There are a number of examples of this in the Beaverton Schools District, where its selective option schools, such as

the Arts and Communications Magnet Academy, do not have the same acreage of athletic fields as its traditional high schools.

A fifth option might be to explore shared athletic facilities with municipal parks departments as a way to reduce some of the land acquisition costs for schools. That option would also have the benefit of creating more sharing of athletic facilities between schools and the general public. While it is rare for schools to generate significant income from a leased school facility, the concept might create the political pressure on non-school governmental agencies to build infrastructure that school districts can share.

A sixth option is to shift the school program to year-round schools. Since school only operate 180 school days a year, the expensive plant and equipment lies fallow for over half the year. Four 11-week terms, separated by four two-week vacations, provide the same number of school days in three years as the traditional school year does in four years. That schedule would increase school capacity by 25%, reduce the cost of operation and better meet working parents' needs.

Mixed Use Development and Schools.

Implicit in many of these options is a consideration of having schools much more closely integrated into the community, continuing a trend that occurs in many schools today. What sorts of land uses work well with schools?

Between commercial office and residential development, probably the best neighbor for a school is residential development, if only because nearby school location is often a desired housing attribute to families. Equally important, the time of day demand for parking for a school often fits well with residential demand. Rather than having an empty parking lot at night, school parking facilities could be utilized by residents in the mixed-use development. And from the school's point of view, they would only need to pay for part of the cost of parking.

A second land use option that could work well with school development is youth-oriented retail space. In the area around Lincoln High School, which is an open campus during the lunch hours, small restaurants and food stores cater to student demand. Space for those businesses could be integrated into the design of the overall project.

For elementary schools, suitable land use partners might be pre-school and after-school service providers. In its strategy to locate new facilities, Knowledge Learning Corporation often locates its KinderCare child development centers near schools. These centers can provide after school supplementary education and childcare for parents who need to work until 5:00 p.m. and cannot pick up their children at the usual hour. Also, for parents with both elementary and pre-elementary children, co-locating these facilities saves them travel costs. Or schools might provide such services for additional income, under contract or directly, using their own facilities before and after school.

Another partnership model is the public-public partnership option. Building a library next door to a school with an age-appropriate book collection could save the district the capital cost of building a

separate school library. A school could be built close to a town's civic center, where an auditorium could serve the school during the day and serve the city at night.

With all of this mix of activities, great attention would need to be paid to security. And clearly some land uses, such as industrial uses and alcohol-serving establishments are inappropriate partners for a mixed-use school development. However, for downtown schools, it may only be possible to mitigate these kinds of conflicts given the history of land use in these places.

Strategies for Cities and Suburbs

Finally, the policy option for suburbs with growing enrollments is often quite different than that of central cities, typically facing declining enrollments. If central city school districts face the problem of triage – meaning picking which schools to keep open and which to close – suburban districts with strong local economies often face the issue of where to build new schools.

For central cities with strong economies, the critical issue is asset management. School officials are often hesitant to sell land, seeing that as a resource that will be hard to recover and viewing the reduction of neighborhood schools as damaging to children. Yet staffing and heating each school becomes an overhead cost that needs to be reduced to preserve resources for m for instruction. That will require hard decisions. School officials are often hesitant to close schools should demand reappear. If that is a concern, then such districts should explore master leases of their buildings that reserve their right to reclaim the property in 5, 10 or 20 years in the future. However, such buildings would likely only be usable by private schools without major tenant improvements. And new construction on leased land that could be reclaimed in relatively short terms for building lives would likely not be feasible.

For suburban schools, the traditional strategy is to forecast population growth and build new schools in greenfield locations, typically on the suburban fringe. Yet if school policy has an influence on settlement patterns, then traditional demographic forecasting techniques do not work. The strategies outlined above might consider suburban downtowns and edge cities as possible locations for new schools to be constructed, particularly when those areas have been targeted by the city and by Metro as places for population and employment growth to occur. If we believe our region's future is to build up rather than build out, then we need to change our thinking about schools.

