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WEBINAR

THE GREAT REAL ESTATE RESET:
RETHINKING HOW AND WHAT WE BUILD

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Keynote Remarks:

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Panel Discussion:

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P R O C E E D I N G S

MS. HADDEN LOH: Good afternoon everyone, and thank you for joining us today. You can tweet your questions to today's panel with the hashtag #RealEstateReset, or by emailing events@brookings.edu.

It's over 40% of private assets nationally, bigger than the stock market, and the second most common as shed after cash. But simultaneously, it's also just part of everyone's everyday lives. This is our shelter. These are our access points for commerce and care. Real estate is cyclical and we are used to periodic market resets where credit tightens, demand is weak, and the construction sector sheds jobs. During these resets it's usually some combination of time, bailouts, and corporate pivots that ushers in the next cycle of growth.

The current cycle that we're in right now began with a reset triggered by the subprime mortgage lending crisis and subsequent great recession of 2007 to 2009. So that means that today the industry is already overdue for its next reset. But this one is different. In our recent research, which you can find linked under the phrase "recent research" on the page for this event we documented five converging and disruptive trends, many of which have been exacerbated by the pandemic.

The five trends are persistent segregation by race and income, America's ongoing demographic transformation, destabilized regional housing markets, the future of work, and disruptions to the retail ecosystem. These trends mean that a real estate system that is deeply entrenched in, and beholden to financial, legal, and professional institutional frameworks of that pick winners and losers based on an assumption that risk in the future can be the best and fairly predicted by the past will remain vulnerable to disruption and calamity.

Today, we're going to talk about how innovative, successful intersectional real estate professionals interpret these trends with an incredible panel is Representative Dan Kildee. Congressman Kildee was born and raised in Flint, Michigan and he serves the area today in the U.S. House of Representatives. However, in between his childhood and his congressional service he founded Michigan's first Atlanta bank, the Genesee County Land Bank, which is responsible for tens of millions of dollars in redevelopment in Flint, and is a national model.

He also cofounded and served as the president of the Center for Community Progress, which is a national nonprofit that serves as a resource for urban, suburban, and rule communities seeking to address the full cycle of property revitalization were vacant, abandoned, and deteriorated properties are transformed into assets for neighbors and neighborhoods.

He still lives in Flint so an alternative hashtag for today's event can be #StayFlinty. And with that, I'm going to hand it over to Representative Kildee for some opening remarks.

REPRESENTATIVE KILDEE: Well, thank you Tracy for hosting this and for inviting me to be a part of it, and thank you for everybody at Brookings for the great work you do. My work that you point to actually started with some conversations at Brookings many years ago with Jennifer Bay and quite a few of the other folks who are involved, so thanks for including me.

This is really an important conversation, especially right now because as a policy maker, obviously we want to be informed by that best thinking. A concern I have, having come from the field is to understand what's taking place out there. And you've done a good job of identifying those trends that we had better consider as we try to frame the response to the current crisis that we're facing right now. Because I think what we are becoming to understand about this current moment, about the COVID pandemic and its effect on community, and by extension on the real estate market; is that it is exacerbating some of the most negative aspects of inequity in the market, and accelerating many of the trends that we have seen coming, but due to the dramatic changes in our lives that have been precipitated by this pandemic have been accelerated.

So I think to sort of lay the groundwork, my biggest concern, and my biggest caution that I'm trying to offer, this is particularly true of the way Congress and this administration structures its response, is to resist the temptation to subsidize irrational to these trends. The positive trends, or the trends that we can't really control; changes in family demographic, changes in retail, changes in the office environment, and attack the inequities that we see.

And so it requires us, I think, to really have a more thoughtful approach and not simply subsidize resistance to some of the trends that are natural functions of a changing society, that we better understand. Otherwise, we're going to spend a lot of money and not have much of it effect -- I think one of the things that -- you know, you mentioned my work back in my hometown here, in my hometown of Flint and the development of a land bank concept.

The notion really came to us because of the need to rationalize a marketplace, a real estate marketplace that was really not functional given the constraints and that sort of paradigm that we were working in. We had a city that had lost a lot of population so we saw many of the same trends that are taking place right now, and in a broader sense, the notion behind the land bank is something I think we can learn something from now; and that is, to not only get control of the problem but to the extent possible try to take control of some of the land.

Try to take control and make decisions about the reuse of our built environment, you know of our landscape, in a way that contemplates not just the transactional value of real estate as a commodity but the effect that those decisions have on the entire community, and now on the entire region. And this really, I think, gets, I think, the core of the problem. And we know, as you mentioned, 40% of American investment is in real estate. But I think the difficulty that we have is for a great segment of the players in the real estate market, real estate is treated as any other commodity; something whose value is measured by its monetary value and the cash flow that it might generate.

And of course, as we know, real estate is not a commodity like any other because it's the place in which we live. It's the place where we conduct our lives, it's where we work, it's where we spend time. It is literally the earth, it's the planet. It's what we are. So understanding these drivers an understanding that we can't simply address what is changing in the real estate market by thinking about it only in market terms, I think is really critical.

I am of the view that some of the lesson we've learned in the urban land reform movement are going to be important to utilize as we move forward, and it's difficult because this requires a level of intervention that sometimes is really disruptive to the interests who benefit from the current structure of the marketplace, and I think it means us, as a society.

And I think utilizing the land bank notion, the land bank model is a good way to approach it. To take control of land, to take ownership of land, especially as we think about the reuse of older distressed retail and office space, that's going to be a really important piece of the puzzle. I'm really anxious to get into the conversation and hang out and participate in the discussion.

But one more point that I want to make; we really, I think, do have to begin to think about some new concepts when it comes to land and real estate. I think just a couple of ideas that I've been working on that I would love to throw out and perhaps get some thoughts on. One, would have to do with the need for us to have a reuse strategy for buildings for the built environment at the point that we develop those. Potentially thinking about a reuse bond that would be funded at the point of construction and then cashable at the point that the property moves into another use, or ultimately might be demolished.

And then, thinking about ways to strengthen those markets that need strengthening through equity assurance are some other mechanism where we can intervene in a market-based way that also allows us to deal with the inequities in the market and try to essentially smooth the impact of these cycles.

Last point, we are -- but what we all know is that as we go through a cycle we don't land at the starting point that we started at. We land at a different place. The most important question for us to answer is what does that place look like, and how can we make it a place that deals with the in equities, deals with the problems that we see with the changing demographic. Deals with the reality that right now what we are funding is unsustainable development given what's happening with the changing climate. If we can figure out where we want to land then we can craft policy that helps get us there.

I really appreciate the work you do. I know that's a bit of a rant to tea things up, and I'll hang out and see what questions come up. Thank you.

MS. HADDEN LOH: Thank you so much, Representative Kildee for those remarks. And that's a great start for our conversation today.

Now, I'll introduce the rest of our panel for today. I am incredibly excited that here with us we have Calvin Gladney who is the president and CEO of Smart Growth America, who is our partner in this recent research. Prior to joining Smart Growth America he was a managing partner of Mosaic Urban Partners, a real estate development and advisory services firm. And before that, vice president of the Anacostia Waterfront Corporation, a D.C. quasi-public real estate corporation where he assisted the CEO with the management of the corporation and was the project manager for a master plan, mixed-use redevelopment of 67 acres of city land. Calvin also previously served as the general counsel of land transactions at Bridge Housing Corporation, which is a private developer in San Francisco, California.

We are also honored to be joined by Majora Carter. You may know her from her Ted

Talk, Greening the Ghetto, or as a member of the class of 2005 MacArthur Foundation genius grantees. But she is the founder of Sustainable South Bronx where she played a pivotal role in the development of Hunts Point Riverside Park. Today she is a real estate entrepreneur and consultant behind enterprises like Boogie Down Grind, a hip-hop themed coffee and craft beer spot that launched with an accessible local investment option, and Start Up Box, a social enterprise that connects South Bronx residents to jobs in the tech industry through QA subcontracting.

And last, but not least, we have Scott Smith. He is the chief executive of the Valley Metro Regional Public Transportation Authority, the regional system serving the Phoenix Metro area. Prior to leading Valley Metro, he was the mayor of the City of Mesa for six years. And before that, had a 13 year very successful career as a homebuilder in the region. His decades of experience with the view from the private and public sectors and as a homebuilder and transportation infrastructure builder and operator add up to a very unique intersectional vantage point for insight into trends in real estate.

So with this group, let's get started. In our framing essay we wrote that the real estate industry is deeply entrenched in, or beholden to, financial, legal and professional institutional frameworks that pick winners and losers to the detriment of the greater American society. Speaking from each of your own personal experience with the industry and the communities you've worked in, what does that sentence mean to you? And happy to throw it wide open here, but Calvin, would you like to jump in first?

MR. GLADNEY: Sure. And folks, feel free to chime in, disagree, and the like. And thanks everybody who's out there taking the time out of your day, wherever you may sit, to listen to us. So we'll try to make this as exciting as possible.

It makes me think – I'll say it makes me think of three Ds. That everything we've talked about in terms of these trends are the result of specific decisions that were made. Secondly, a lot of those decisions were made on a racial basis back in the day. Secondly, that those decisions have a disproportionate impact on Black and Brown communities, so even though we think of them as a series of individual decisions by different developers, investors, and the like, policymakers, they all, unfortunately, in newer to the detriment in many cases to particular communities.

And then third, the last D would be that the only way to do something is to do something different. That we actually need to be clear-eyed on the history, clear-eyed on the disproportionate effects, and then clear-eyed that we -- we can't in some ways just build back better. We actually have to build back differently. And to do that requires doing a number of things differently including allowing the systemic effects to just be an aggregate of a series of individual real estate investor and developer decisions.

So long as we allow the industry and the outcomes to be that, we're going to get the same results.

MS. HADDEN LOH: I saw some head nods coming from Representative Kildee and Ms. Carter. Who would like to jump in next?

MS. CARTER: Oh, I'll start. Fortunately, we had a chance to chance as part of a pre-call, and I actually wrote down something that Calvin had said earlier, and which is a nice little segue. It's not a bug in the system to have inequality, it's a by intent. And it really hit me, you know, being, you know, kid born and raised in what was considered, and still considered, sort of like the epitome of urban blight, the South Bronx in New York City. The poorest congressional district in the country, blah, blah, blah. It goes on and on, we are defined by the things that we are not.

You know, we are -- we don't have wealth. We don't have this, we've got poor health, it goes on. And so when I think of that question, you know I think, you know, yes it was by design. And it will also be by design in terms of how we are – how we can continue and work to create the kinds of communities that we don't have to move out of in order to live in a better one. To me, that is literally a call to action to create the kind of approach to real estate development that looks at our communities for the talent that was born and raised in it and figures out ways to retain that talent to use real estate development as a way to socially, environmentally, and economically transform our communities from the inside out.

That's what that says to me. Yeah, we were part of breaking it, but guess what, we can also be a part of fixing it again from the inside out.

MS. HADDEN LOH: Scott?

MR. SMITH: Well, you know, when I look at that I look at a statement that's based in our history reality. In the world that I lived in both in the private and the public sector, I ran up against those things all the time. But I also think that in some ways maybe it oversimplifies the issues because real estate is incredibly complex.

And when we talk about the real estate industry, for example, it's not a homogenous industry. A developer that would develop the South Bronx, for example in Majora's neighborhood is vastly different than a suburban tract home builder in Phoenix, Arizona. The financial situations and different, the – everything is different. And I think we need to recognize that while we can have the same goals that there are different things that affect decisions that are made.

And I like what Representative Kildee said when he mentioned that the market can't solve problems. But we can't ignore and deny the impact and the effect of market. You cannot force people to act in a certain way. I look at, for example, your cities. I think one of the greatest failures in policy was urban renewal in the '50s and '60s as we tried to force development and real estate policies on the urban core and no one bit. Now, we look at that in 2021 and we – you know, unless you were born back then, you don't realize that people actually didn't want to live in the middle of the city then.

It was a combination of policies and the market reaction where people actually realized living in a vibrant neighborhood in an urban core is a good thing. And it was the combination of policy in the market that drove that change. So if we're going to approach anything, we have to respect the market. I know one of other thing, and maybe you don't see this, but in the West especially I remember back in the '90s one of the big things was going back to midrise and high-rise development and putting street-level retail.

And that became a requirement of every zoning case for any multi-family high density that was sort of urban in nature. And for the last 20 years every city in the West and the South required street-level retail. If you go past of those buildings now, there's a 90% vacancy rate because nobody wanted to do -- I mean it was – it sounded great on paper. It was what people remembered when they grew up in cities, but it didn't work because the market wouldn't accept it.

And I liked what Representative Kildee said about how you can't rely on the market. This is a high risk type of reward industry and that attracts people that like high risk kind of reward. That is not always good. On the other hand, it's – because it takes such an intense allocation of capital people aren't going to invest, and governments should invest capital in places where people don't want to go and in uses that people don't want to have. That's, I think, our biggest challenge is figuring out what those answers are, and how to balance that and get that sweet spot. We've seen places where it's worked, and we've seen places where it hasn't.

REPRESENTATIVE KILDEE: If I could just chime in and add one thing. I think it's a really important conversation because we talk about the market, and I appreciate these comments. The truth of the matter is there is no pure free-market. You know, it just doesn't exist in real estate and it doesn't exist really in virtually every aspect of our economy.

So when we think about the market we know there is a certain momentum in a market, but we know that that momentum is partly derived sort of organically, subsidies. Explicit or implicit subsidies. And the racial inequity, I think, is largely driven by the fact that in explicit, and implicit subsidies we heavily subsidize suburban and whiter communities, if you want to just get right to the nub of it all.

MS. CARTER: Less.

REPRESENTATIVE KILDEE: And then we blame weaker markets, which are often populated by people of color for the condition that the subsidy structure has created. And I think about this in the context of one unavoidable piece of this, and that is the level of public service provided in the community is one of the variables that affects the attractiveness and the value of real estate. And so what we've created is a situation where weakened places have lower levels of public services, the basic elements of civil society have almost been deteriorated to a point where they can't really sustain who's there, let alone attract somebody else from coming in. And then, we treat that situation as if the condition is the product of decisions made by people who are the subject of that situation as opposed to thinking about it in a different way.

MS. CARTER: Right. And then we need to talk about the way real estate development actually works. Okay . And because in those same areas where poor Black and Indigenous people of color are blamed for the conditions in which they live, you know those – there's also places real estate developers make a lot of money in those places because of the subsidies for building the kind of very low income housing, etc. That's all people – those developers are not doing it because they like poor people. They're doing because they're making a good amount of money.

So actually I'm going to push back a little bit on you, Scott, because with regard to like the types of real estate developers in terms of where they're working geographically, yeah that's different. But if you really look at who are real estate developers that are actually making the deals, their mostly white men. Especially in communities like mine, I mean, or in New York City. I mean it's the same 12 white guys, if I can be blunt about it. And everybody from our mayor on down is just like -- they see absolutely nothing wrong with it despite the fact that there's all sorts of studies about, you know, if you've got it in terms of innovation.

Real estate development would actually work that way as well, but the bottom line is I think also because of the way the subsidies are actually produced people and communities like ours and the fact there isn't access to capital in the same way that it is, you know, for people like me who are working to be real estate developers, and who may have great ideas, no one looks at us seriously. And that, I think, literally helps degrade the fabric of America when there is no innovation in terms of looking at our communities, and particularly low status ones, as places that actually could thrive, if we, one, invested in them the same kind of way, and invested in a different type of real estate developer that might do much more sensitive development that doesn't just concentrate poverty based on the subsidy programs that are just rampant there.

And if then, because we're concentrating poverty or we're also concentrating low health education, you know, people involved in the justice system, and then we wonder why those communities don't get any better. And it's like we've set up those conditions. And I'm just astonished that we are still having this conversation.

MS. HADDEN LOH: Sorry this reminds me, referencing back our conversation on the pre-call thinking about something else that you said, Majora, I found this Martin Luther King quote that I want to run by you guys and get some reactions to. So Martin Luther King said, "We have fought long and hard for integration, as I believe we should have and I know we will win. But I've come to believe were integrating into a burning house."

MS. CARTER: Hmm.

MR. GLADNEY: Oh.

MS. HADDEN LOH: I'd love to hear a little bit more from you guys about what that quote means to you because here we are several generations after the civil rights era and we've made very little progress on integrating our neighborhoods. I want to hear about do policymakers in the industry have any responsibility in dismantling spatial segregation? And what are the policy and practice barriers to doing so?

MR. GLADNEY: You know, I'll jump in just on the responsibility point. Those who have been the beneficiaries of these long-term subsidies that we have just discussed, therefore, also need to be part of the responsible and accountable parties to undo that same very system. And I think often times real estate developers and investors and the like think of themselves as individual actors in having not benefited at all from the system that is totally designed for their wins and not for their losses. And so therefore they decide to opt out of being part of the solution to that because they didn't cause any of the problems; and that's just not true.

MS. CARTER: Nope.

MR. SMITH: What I found and to get back to both of those, having built all over – in many different communities, and the majority of my houses I actually built in South Phoenix which prior to my building was -- it is a majority minority. I worked closely with the city council member because we -- we were dealt with this problem. You attracted a lot of what I would call low-quality quick buck developers enable them to do that.

MS. CARTER: Right.

MR. SMITH: How did we change that? We changed the rules to heighten the expectations. We find out that if you you're very clear on your expectations as to the type of development and what you're demanding you tend to attract developers with more patient money and developers that actually understand the long game. If you make it easy and you dummy down and allow that, yeah, you'll get your quick buck people and they will leave lasting damage.

What we did is that we decided we weren't going to dummy down in this area and working with the city councilmember we raised expectations. That was 20 years ago. You go back to that community now, and you see the results of the community that has grown. You see quality development not bad development, and you see fly-by-night take it and run developers don't go there.

You also look at some things, and Congressman, this is one thing that I think when you talk about subsidies, now that I'm in the transit industry I realize that many of our national policies where the federal government is involved actually run counter and create these kind of unintended subsidies. For example, it's a lot easier to get a freeway financed with federal money than it is to get a transit system funded.

REPRESENTATIVE KILDEE: Right.

MR. SMITH: I can't tell you what it's like getting a grant to extend a light rail. It is a lot easier – I look at my highway partners and say well I wish I had that easy, but it's not. Because transit has historically been viewed as a local initiative whereas a freeway is, of course, part of a national initiative. Well, that right there if you're going to extend freeways we all know what happens. You extend a freeway it also -- the housing goes further away.

REPRESENTATIVE KILDEE: Yeah.

MR. SMITH: Because you have subsidize that sprawl. You know, things like that that really – raising standards within also recognizing that our communities are all interconnected and we can eliminate some of the basic subsidies by encouraging things such as making it – making more money and easier money to develop transit that will help build and develop the infrastructure into the urban areas which has been neglected for so long.

But also, make some of our longer-term (inaudible) and just spreading urban subdivisions further and further out.

REPRESENTATIVE KILDEE: This is a really, I think, important point to sort of emphasize something I maybe didn't make clear. And it has to do with this notion of subsidy. When I talk about explicit and implicit subsidy, we need to really have an honest conversation about the effect of all the forms of subsidy that support development. Are we supporting the relocation of wealth and economic activity from the place where it was a born to a place that it can escape to?

Or, are we subsidizing our values? And I don't think we subsidize our values very well. An example, Scott, that you used is one I'll take to another level because you mentioned a highway, or a highway interchange. It happens every year. We subsidize a magnet for development; a magnet for wealth to move from a community that is struggling to a place that is green, and clean, and cool.

However, what is the value of a grocery store in an urban neighborhood to the quality of community as opposed to the value of a highway interchange 10 miles away? And what is the cost and how do we figure out how to underwrite the cost of something that is human and necessary, is affordable high quality food for people who need to live in a community? We can't figure out how to subsidize that. We can figure out how to subsidize something that cost a thousand times more than that that produces exactly zero value, but relocates wealth and economic activity from one place to another.

So we really got to – this is one of the data-driven approach of this initiative and all the stuff that Calvin and SGA and others have been doing is so critical because we have to have an honest conversation about what we are subsidizing. And if we really look at it honestly, we are not subsidizing our stated values. We're subsidizing interests.

MR. GLADNEY: You know, I --

MR. SMITH: And Congressman, I will tell you, serving in office it gets back to what -- something Majora said in that is defining winners and losers. What I found is that all too often we defined winners and losers as individual on a transactional basis. And so for example, if we somehow create a situation for that grocery store to go into the food desert in the middle of an urban community and you support that effort, you're -- winners and losers because an individual business.

However, if we build that freeway interchange that's a community interest. Forgetting that, you know what? The community wins. Either way the community wins and sometimes our conversation is not focused on the fact that we -- I agree with you 100%. We need to do things that benefit the community; raising standards, helping things exist aren't individual wins and losses, they are community wins and losses. And that's where I found both in the private -- especially when I was a mayor the conversation missed the point. It was far too transactional as opposed to being more broad-based and value-based.

MR. GLADNEY: You know, I wanted to join in just on this conversation about subsidies and talking about missing points is, as Scott just said, one of the things we don't talk about are some of the things we subsidize that going back to previous points don't align with our values. And I'll talk about two that are a third rail, and I'll put them in real terms that the Representative can definitely understand.

So as an example, our principal residence exclusion and our mortgage interest deduction. These are 100% designed for a certain set of people with a certain amount of wealth. They are mostly designed to the benefit of single family home ownership. So in a way, they are directed indirect subsidy of sprawl.

And going back to what Majora said in the very beginning, if we had a system that was designed and this is what the sort of SGA Brookings Real Estate Reset report talks about, the segregation that is accelerated over the decades. We had a system that was designed and was implemented and executed to segregate. And we still finance and subsidize that segregation in ways that we don't talk about.

And one of the things that Scott talked about in terms of transportation and this goes to where it's interconnected, at a federal level we fund, generally speaking, 80% of the cost of highways, and about 20% or so of any type of other multimodal investment. That subsidy alone nobody really talks about, but that dictates almost everything that happens at the state level. And it becomes not just a subsidy for that transportation infrastructure investment, it usually is a subsidy for the commuters, and this gets to this point about community, not the community.

MS. CARTER: Right.

MR. GLADNEY: Because we often do a lot of things that benefit the commuter who wants to get from the suburbs to a downtown job. We benefit the commuter who wants to get from the sub- birds to an amenity, to a service, to the like, to retail. But we skip over the negative externality that happens to that community in which they are traversing through. And if you think about all the trends we've talked about, future of work, retail, segregation, demographics, markets, almost all of those are a reflection of certain communities being left out of the discussion. In all of those trends are just going to worsen the effects to those communities.

MS. CARTER: Very true. If we go back to the MLK quote that Tracy suggested earlier, you know, is it even possible to create the kind of integrated communities, racially, economically, et cetera? And you know what, maybe not in our lifetime.

And honestly, the older I get the more I'm like maybe that's not a big deal. I mean it's a terrible thing, but ultimately if – but if our goal is to actually impact the quality of life of people that are now living, with the impact of segregation and what that means on their quality of life economically, health wise, educationally, etc., that concerns me more than anything else. Not the fact that, you know, we don't live in an integrated place.

But the fact that we are not often given the opportunity to even impact on our own terms the quality of life in those communities, that's what bothers me. You know the fact that the wealth gap has gotten as big as it has, and only in 2020 did it become, like, mainstream people talked about it, but we all knew about it. And it's just like how do we deal with that? But you know ownership rates no matter who's doing the development opportunities, those type of things are the things that that have bothered a lot of people for a long time.

And so really the question is how do we impacted that? And I think there's enough really interesting models out there. First of all, I love Representative Kildee, what you have done with the land bank. Those are real examples. Are there other examples for access to capital so that we can be doing things on our own? There are some great groups out there.

For example, East Bay, a permanent real estate collaborative out in Oakland. They are literally sort of taking the model of crowdsourcing real estate development amongst their community. Is it happening on a small level? Yes, but is it happening? It's happening. And Jumpstart Germantown, you know a white commercial developer was just like how do we support -- and basically, because he was really interested in other people doing residential development because it also supported his. I mean, he also is a really nice guy too. Kind of like you, Scott. You've been -- I want to be real --

MR. SMITH: This is the moment I (inaudible).

MS. CARTER: Well, I agree with you. But you know, that he realized, like, look if I can help these young Black developers who have been completely cut out of the system and access to capital by creating my own loan funds so that they can get their first deal, then guess what, the value of my own properties go up. And I do a good thing with these guys actually learning how to be developers. Our whole city benefits. There are models out there that exists. We are not making stuff up. I mean there are people on this call, all of us, who have done really incredible stuff. But it comes right down to it, who's got access to access to capital?

Do -- the folks -- (inaudible) feds? Whether it's philanthropy, whether it is the banks, do they trust people that look like me with it to do the work and the chance – and honestly most of the answer is no.

MR. GLADNEY: I got, like, $5, $10 for you. So I trust you. Let's do it.

MS. CARTER: But seriously --

MS. HADDEN LOH: You've got access to Calvin's capital.

MS. CARTER: Why don't we make this happen?

MR. GLADNEY: Not much.

MS. CARTER: But you know what I say because I (inaudible) a whole bunch of it and that's what we'll do.

MR. GLADNEY: Can I have one -- this might be blasphemy, but I want to say it anyway, which is that's both not reliant on the Scotts of the world, the ones who have a certain moral character, who have a certain triple bottom line nature, a certain willingness to do the harder things.

But this is where the blasphemy also comes in, Majora, we also don't want to rely on the models that you just described because both the models and the Scotts of the world don't change the system.

MS. CARTER: No.

MR. GLADNEY: And we actually have to change the system, and this gets back to Representative Kildee's point about the markets. I don't want to rely on the markets except for that I want to create a structure that incentivizes them to do what I want them to do. And that's what we are not doing now. So as an example we talk about Black and Brown communities, and Majora is talking about well, we want to give folks the ability to do things in our neighborhoods. Well, our neighborhoods disproportionately have older buildings, disproportionately – often times may be well located, can get to transit, but disproportionately have decades of disinvestment in terms of infrastructure.

Well, the system right now it is designed in its most celebrated form to do development in suburban areas where there is less resistance on vacant or -- you know -- not --

MS. CARTER: (inaudible).

MR. GLADNEY: -- environmentally contaminated land. And right now, for example, the low income housing tax credit when you actually do an analysis of it, which we did, most of those developments are not happening in places near transportation because of the way – what it's willing to fund and how easy it is to get deals done.

MS. CARTER: It's very --

MR. GLADNEY: So we propose a number of legislative fixes to think about the system change so I don't have to rely on Scott being a great guy, or all of the individual community groups who are thinking about – who are making new models --

MS. CARTER: Okay.

MR. GLADNEY: Yeah.

MS. CARTER: I think you misunderstood me a little bit because --

MR. GLADNEY: Okay.

MS. CARTER: -- I don't think that is the be-all, end-all but what I do honestly believe is that good projects will inform good policy because I personally, considering we have lived through all of the policies that now dictate exactly what goes on in our communities, I am not open to watching a bunch of policymakers figure this stuff out on their own. Like I'd rather have them looking at somebody like me, at folks at EB Prac -- and a whole bunch -- and Scott, is doing good work and going why don't we try that?

Because we've watched the philanthropic, the nonprofit industrial complex and policymakers do the same stupid, crazy things . And then, we wonder why, after billions have been spent our communities are still poverty-stricken, they're still all this racial crazy injustice going on that informs everything, and it's all based on policies. They -- yeah -- that have been done based on, like, their own model.

MS. HADDEN LOH: And I just want to quickly chime in here and say that I strongly agree with Majora. And we've been doing some writing about this at Brookings about community wealth models, community ownership models of how to scale them. I really do believe they represent a structural reform because there about changing the rules in terms of who benefits from development and change. And I think that's part of what has to happen in order for us to start seeing something different. And that's what Dan did when he created the Genesee County Land Trust. And that's just one example. There are many other models.

MR. GLADNEY: Yeah, I don't think were disagreeing, by the way.

MS. HADDEN LOH: Yeah.

MR. GLADNEY: I was just saying let's not think of it as models let's think of them as the new system rather than just a case study in a report.

MR. SMITH: If I could give one example. And first of all, I think the concept of value capture is important that we don't utilize a note of, where these direct and indirect subsidies, there is a value capture component into it that invested back into the community so we don't have people getting windfalls. But if I can just give one quick example of something I'm sort of proud of because I had part of it.

When I was mayor in downtown Mesa, Arizona – by the way, Mesa is a city of over 500,000. It's a big city, but it's a big suburb. But we had the same effect, our downtown, our central city core had become a doughnut of underdevelopment. As a matter of fact there had not been a single new residential home permit issued in 30 years in downtown Mesa. And we were having light rail extended through our downtown and we tried to figure out what can we do to get people to move into our downtown, but to get the right mix, so we created a community, a neighborhood again.

We recognized that real estate being a high risk, or I did, we had to create the kind of scenario where we could attract good developers. We decided to go form-based code. We threw out our Euclidean zoning, all the colors on the page which restrict innovation and create the kind of almost prison walls you're talking about. We went to form-based code and we dealt with form, structure, quality.

Now that was about 15 years ago; 15 years down the road we now have over $5 million residential projects that that have either been completed or are under construction. It's a mix of subsidized tax credit housing which started first because what the market allowed, but it's now moved into market base. I will challenge you, if you're ever in Mesa, Arizona drive down the street and tell me which one is a tax-credit subsidized and which one is market rate. You cannot tell the difference.

MS. CARTER: As it should be.

MR. SMITH: Because we focused on quality, we set standards, we attracted -- and now we have a – we're building the neighborhood back again because we have a good mix of people. It's diverse. It's diverse economically, it's a diverse ethnically, racially, everything. But we set policies that set the stage that attracted quality developers then made it easy for them to succeed.

MS. HADDEN LOH: And Scott, I appreciate that example. I think that's really useful. But I also do take to heart Calvin's point which is in that Martin Luther King, Jr. quote, you know, about integration and the burning house, you know I think Calvin really has a point that like we need to put the fire out in the house. And that means that thinking bigger than just real estate, right. And looking at kind of even the bigger system and to think, like, oh, so what would it mean if we integrated mobility? What it would it mean if we integrated schools? And to Majora's point too, the beginning and the end isn't just integrating neighborhoods, right. That there are all these other systems as well.

So I want to pivot now so that we can talk a little bit about climate change. And what it means, you know, given that it's watching what's happening in Texas this week, you know, just the latest climate apocalypse.

MR. GLADNEY: You mean the problem that happened because of the wind turbines? That thing?

MS. HADDEN LOH: Thanks, Green New Deal. Yeah. So I think, you know, we don't need to look any further than Texas today to see that we can be certain that the future that the future will not be like in the past and there's – there is a growing and broad support for resiliency but in real estate industry and policymaker attention is focusing on improving energy efficiency in buildings and construction while still maintaining the regulatory regimes and investment strategies that promote the low density development and auto dependency that you guys have been talking about.

So we're largely ignoring our growing exposure to a that we are already seeing is putting millions of residents and businesses at greater risk. And we're potentially going to start – be starting to look at massive loss of assets and value that's going to be too expensive for any government supported intervention or bailout. You know, the idea that just, like enormous chunks of urban form throughout the Sunbelt, for example, could be functionally obsolete.

So given what we know, and that we are watching this happen on TV, how is this happening? Why isn't anyone doing anything about it? What do we do?

MR. GLADNEY: I can start. One of the reasons this is happening is because we don't bake in the cost, the full cost, of doing what folks are doing now. We don't have the value of real estate think about the negative externalities, the insurance risks, the climate change related risks of the location of those properties. Basically, we as an industry, are not, in terms of valuations, transactions, ability to get insurance, ability to get some of these subsidies or said differently investments; none of that is baked in.

Now, I'll say that to say we have to do two things though. We not only have to bake in all of these things, but we again, have to lift up and remember the history and people. Because let's go to New Orleans for a second. And think about Black people decades, and decades, and decades of time being forced to live in certain neighborhoods. And at the time, they were forced to live in neighborhoods that are all around the levees and next to these bodies of water. They were forced there. They were not allowed to live elsewhere. They couldn't get, you know, mortgages; they weren't rented to.

So they were put in these areas so if we're going to bake in the rias, the evaluation challenges and the like of climate change and insurance companies and the like are already thinking about this, we have to also remember that systemically Black and Brown people are also placed in the same, you know, right in the direction of the moving train. And so we have two simultaneously say we can't have all of this inure to the detriment of, as an example, a New Orleans homeowner who suddenly, we're like, oh we should bake it into the insurance and the value of homes and it's like I had to live in this home. And now you're telling me my home is worth 50% less and I can't get insurance. Well, the only reason I'm here is because you forced me to be here.

But I think the reason why we are here is we've not baked in the risk and the values and the issues that relate to climate change into our real estate. But we also haven't been clear-eyed about who's been put in the path of these changes as well.

REPRESENTATIVE KILDEE: I think that's a really good point and maybe because I've lived in the political system and the political world I tend to think of it this way. But the point you make is so critical. We do not look at the long-term consequences of a lot of these choices we have policymakers who are trying to convince us not to do something.

In other words, investment in early childhood education, we can't think about the 40 year -- we have to think about the long-term costs but we can ever get anybody to invest in it. But when it comes time to invest in some long-term project, we can have all the – or a tax cut, we can have all the dynamic effect of that brought into the transaction. I think a lot of what we're doing is because we are not forced to internalize the downstream economics of what we do. Both the negative and the positive. And somehow I always thought that if somehow we could wave one magic wand, and I had one choice, it would be that the decisions that we make -- I'm thinking about my own institution and Congress, that we could only measure the effect, the financial, economic, impact of that starting in the 10th year and going out to the 30th year, not looking at a 10-year window. We subsidize the wrong thing and this really does get back to subsidy. We subsidized the wrong things because in the short-term they are transactionally beneficial to the people who are involved in those deals.

MS. CARTER: Right. Right. I love that.

MR. SMITH: Well, and those people aren't just individuals either.

REPRESENTATIVE KILDEE: Right.

MR. SMITH: They're entire communities. I mean, to get back to your statement, Calvin, basically the entire City of New Orleans is below sea level so they are all in a floodplain. And yet, if you took the same approach, and this is why things don't get done and why it's not priced in. You also have to look at the entire coast of Florida, North Carolina. I mean there's millions of people. There have been a lot of discussions as to why the federal government basically gives away flood plain insurance. And everyone agrees it's the dumbest thing we've done. And yet, there's been virtually no change. Because there's so many --

MR. GLADNEY: And it's not just floods, it's tornados --

MR. SMITH: -- interests that are personal in nature --

MR. GLADNEY: -- hurricanes.

MR. SMITH: Yeah, everything.

MS. HADDEN LOH: Just weather events.

MR. SMITH: And that's the problem with an overriding policy is that we look at a single transaction. There are millions of these individual transactions that we tend to look individually, personally as to how it impacts us, and all of a sudden a representative and his cohorts start hearing from all of the people who live on the shores of Florida or on the river -- the Ohio River or whatever not going to touch it.

Okay, just from doing the things that are smart and the next a flood, the next hurricane, the next whatever keeps repeating, and repeating. Yeah, it is – it is the sheer definition of insanity. But we keep doing it.

MS. CARTER: That's not it. You know, the interesting thing is now, like, we've actually already gone through this. You know, like I was a huge part of the movement for green jobs back in the day, like the first time it happened. And watched it fizzle and burn because folks were not actually thinking, just as you said, Congressman, looking 10 years into the future. Like the fact that money could have been made because I'm a big proponent of looking for where the money can be made for lots of different folks.

And if you look back specifically back in the first wave of green jobs there was a big push for climate mitigation. Like, we're going to build solar panels, we are going to invest in green job training and that's going to save America. It's like how is it going to save America when you – we had a Black guy in the White House and Congress was not going to try to pass any kind of bill that was going to make that easier to happen. We were not going to get that. So why did we bother? But everybody did. That was a sign of insanity.

But instead, could we have thought about how do we actually make our cities more resilient? Could we get those red states to actually start greening? You know, doing climate adaptation work to get people working. That would have been, I think, a much more smart way to kind of like move people over to the side so it's not about Obama, but it would've been about, like, how do we support our folks?

I don't think there has been a lot of thought about how to actually make this palatable to folks that really don't care if a lot of folks aren't working, but they just want their folks to work. And that's all we need to be seriously thinking about. Especially when it comes down to climate. How does it affect the constituents, specifically, you know, in those areas? And I think that's where we might be able to find some – I don't know if we could find common cause with a lot of folks that supported Trump, but they want to work.

MR. SMITH: Hey Majora, I think you would be surprised. As a Republican mayor, and I was the president of the U.S. Conference of Mayors and we worked a lot on climate change. And we focused on one thing that everything agreed on; we stayed away from the conversation as to whether we've caused it, whether you're a climate denier or whatever, we did mention the one word that has come up many times, and that is resiliency.

Everyone understands that if there is a hurricane are there is in this, or that, and we see it happening in Texas, my guess is that Texas – everyone will understand it. We better prepare our energy thing for the next freeze. Okay.

MS. CARTER: Yeah.

MR. SMITH: I think if we focus on more on resiliency which is what we did as a group of bipartisan mayors, we got buy-in from our constituents. Even my conservative constituents believed in the cause of resiliency and we stayed away from the political discussions that could send everyone on climate change headed to the corners. And I think we don't do that enough, where we don't talk about --

MS. HADDEN LOH: Right. And that's a good point.

MR. SMITH: -- about the resiliency side of things.

MS. CARTER: I don't think -- you don't have to call it, I don't care what you call it. I --

MR. SMITH: Well, that's a good one because even people – everyone can see that the world is changing around us. What do we do to adapt to that? What do we do to counter the effects of that? And we found that we can – we can find common ground that will move the needle on some pretty significant things. I mean, for example, I would hope that we can have a better discussion on flood and on flood insurance now then we could five years ago. And part of it is because we recognize whether you believe in -- that the climate is human caused our don't, it doesn't matter. If they are happening more often we need to adapt to that and find resiliency.

I think we're moving in that way where we can have more common discussions then I think we believe we can.

MS. CARTER: No, I think we --

MS. HADDEN LOH: It is possible. More people are aware of the (inaudible).

MS. CARTER: Right. We were always there. I mean I think that's a really important thing to note. We always had the folks that were actually having the conversation without doing it on a national level were not having those conversations. Now, we need to do that.

MR. GLADNEY: Another thing, I'll sort of add to this point too, real quickly, is part of the conversation also needs to be about how something that benefits one group, one red states, one blue state, one person also benefits the other. And we try to do this a lot, particularly in talking even with Congress people. So for example --

REPRESENTATIVE KILDEE: Yeah, but --

MR. GLADNEY: -- you're trying to fight for – for example, if you're trying to fight for a rail project in, let's say, LA. and so you're in a small town, you're in a smaller place, you're in a quote red state somewhere else and you're like well, why am I going to vote for tens of millions, if not billions of dollars going to LA, everybody is rich in there. It doesn't benefit me.

The conversation we had is, “Hey, let's talk about the supply chain, and let's talk about how the factories that build a lot of those parts, some of the suppliers, and the like, jobs, going back to Majora's point, actually exist in your state.” So that rail project that's happening in a different state, that transportation, that infrastructure investment, we have to have more conversations like that because --

REPRESENTATIVE KILDEE: I agree.

MR. GLADNEY: -- at some point it's a really about W-I-F-M radio. Which is, what's in it for me?

MS. CARTER: Right.

MR. GLADNEY: If we can't figure out how to describe how multiple people benefit, then it's hard to get to folks whether it's congressional votes or it's where the money flows.

MR. SMITH: Agree.

MS. HADDEN LOH: So we are coming up on time here and I would like to conclude by asking a kind of an open ended question so that we can hear from everyone one more time.

What do you view as of the biggest challenge in changing real estate practice in the United States, and what have you seen that gives you hope about the future of American real estate?

Calvin, can we start back with you?

MS. CARTER: -- who are a diverse group of developers and the things that give me hope are people like myself who despite all the challenges are still trying to work to develop our communities from the inside out in ways that benefit the people that are there.

MR. SMITH: I'll pick up. I think that one thing that still continues despair, and this is across the political spectrum, NIMBYism lives. And at the end of the day a lot of real estate is very local. It's very transactional and that keeps us from thinking more community-based and long-term thinking. I do have hope though, that when you look and see what's happened with the resurgence of cities, with the change that has happened, I think real positive on real estate because I think we're trending, and this reset is well positioned because we've done a lot of right things in the last couple of decades. We -- yes, we fall short. But I think we're much better positioned now than we were, let's say in 2000 to have an across the board thought about how we can redefine real estate on a community based, everybody wins. So what's in it for me? I win if we win long-term.

MR. GLADNEY: We should -- I'll let Congressman Kildee have the last word. I'll quickly say, I think the biggest challenge is financing, investing, and subsidizing the things that we say we believe in, when it comes to real estate. And right now, we just don't do that. And so proposing legislation that actually funds the models that Majora , you know, discussed. Part of the challenge is often times, you know, you have to be a superhero to get those deals done because you can't find basic financing to do those deals if you want to do old buildings near transit, if you want to do housing, there's not tax credits for that.

All the infrastructure investment that we say has not happened in Black and Brown communities can't happen under our current regime. And so proposing tax credits and other means, like the bond example, that Congressman Kildee talked about earlier, we have what we call the rehab tax credit that we are proposing. But all of them are designed to say we don't have financing tools right now, whether it's a debt, equity or a hybrid that actually finances the things that we say are important. And until we do that, we haven't changed the system.

What gives me hope is listening to a conversation like this and finding that there are folks out there fighting. You know Majora is out there on the ground, in the board rooms as well. The Congressman is fighting in the halls of power, Scott's been in all of those places, and that gives me hope that there are still people putting their shoulder against the wind and were going to keep doing that.

MS. HADDEN LOH: So Congressman Kildee, what are you doing about it?

REPRESENTATIVE KILDEE: Well, that's the big question is in it. I mean, I think what I would say is essentially what Calvin just said. If we don't align the incentives, the subsidy with the values that are going to create what we all would like to create, this more inclusive, equitable society where we have a sort of a base level of decency that we require in order for our communities to succeed, then if we fail to do that we're missing the point.

What gives me some hope is that all the models, I would prefer to call them reforms. Some of the reforms, and I'll speak to the one that I was involved with, the development of the land-based concept, is based exactly on that notion. I mean, this was really about creating a regional subsidy to rebuild the most distressed places.

Now, did I go to everyone and sell them on that and remind them that I'm basically doing regional equity redistribution? Not everywhere, but that's what I was doing. And so it gives me some hope that models for reforms can be created that align with our values. And that we can take those models of those concepts to scale where there are no longer just experimentation, if you want to use a really loaded term, but actually a reset of the whole system. And in this case, a reset of real estate , then I think we're actually getting somewhere.

MS. HADDEN LOH: Thank you for that, Congressman.

I would just like to thank all of our panelists for your time, for your ideas, for your engagement today. This has been an incredible conversation. Thank you so much.

MR. SMITH: Thank you.

REPRESENTATIVE KILDEE: Thank you.

MR. GLADNEY: Thank you.

MS. CARTER: Thank you.

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