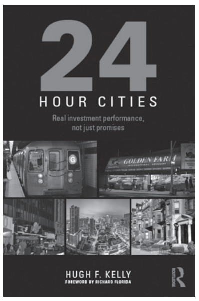
24-Hour Cities: Real investment performance, not just promises

By Hugh F. Kelly, Ph.D., CRE (© 2016, Routeledge; 326 Pages)

REVIEWED BY PETER C. BURLEY, CRE, FRICS



Hugh Kelly reminds us in more than one place in *24 Hour Cities* that "a list of ingredients does not constitute a recipe." In his book, Kelly offers us a full-flavored, sit-down, multi-course meal of form and function, detail and design, ebb and flow, success and failure of the American urban environment. This is no Country Buffet, with a sampling of this 'n' that. It is a rather sumptuous, gourmet offering, beginning with an appetizer of colorful, charming vignettes of his own (obviously personally beloved) Brooklyn neighborhood, and moving through an orderly, exhaustive presentation of the American city in its historically best — and arguably some of its worst — forms.

It is difficult in a brief review of Kelly's book to fully cover the extensive literature review he undertakes in describing and discussing the American city. It is thorough and thought-provoking. While drawing on the deeper history of the city, his real story begins in the 1950s with (some pre- but mostly post-war) policies, technological innovations, and a host of forces — demographic, political, economic, and otherwise — that have shaped the modern U.S. city. Drawing on some old favorites of my own, including Hoyt, Muth, Alonso, and Mills, among others in planning and urban studies literature, Kelly is able to point to the complexity of the urban organism, its evolution, growth (and often decline) in the mid-to-late 20th century. In some cases by design, as in planning policies that have determined specific land uses, and in others, misplaced priorities, as in transportation development or "urban renewal," Kelly moves us from the early functional urban agglomeration to the later "hollowing out" of the urban core in favor of the suburban fringe. In the case of certain 24-hour cities, he cites reemergence of the central city as a place of residential, commercial

About the Author

Peter C. Burley, CRE, FRICS, *is a leading real estate market and economics research professional with extensive executive experience building and managing strategic research platforms for the real estate industry. Peter is recognized for his analyses of national and regional economic, demographic, industry and property market trends across all property types and for his development of real estate portfolio investment strategies.*

As the founding director of the Richard J. Rosenthal Center for Real Estate Studies at the National Association of REALTORS, in Chicago, Peter set the strategic direction of the Center, and managed the execution of academic and professional research on major issues, opportunities, and challenges in the real estate industry. He created, edited and published the Journal of the Center for Real Estate Studies *and directed research on a variety of critical topic areas.*

Prior to founding the Rosenthal Center, Peter was Vice President of Market Research at Simpson Housing LLLP, where his research guided investment strategies to grow the company's portfolio to approximately $2 billion. Prior to Simpson Housing, he was Director of Research at Amstar Group LLC. At the Allstate Research and Planning Center, in California, he developed analytics and strategies for the company's multi-billion dollar commercial mortgage portfolio.

Widely published, Burley has written numerous articles on current and forecast trends in the economy and real estate markets and co-authored two books on commercial real estate investment. He has been a contributor to UrbanLand, National Real Estate Investor, *and* TheStreet. *He is a Counselor of Real Estate, a Fellow of the Homer Hoyt Institute, a Fellow of the Royal Institution of Chartered Surveyors, a member of the Urban Land Institute, a member of the Advisory Board of the Real Estate Research Institute, and a past member of the Board of Directors of the American Real Estate Society, receiving the ARES Board Service Recognition Award in 2016. He is the former Editor in Chief of* Real Estate Issues.

Burley holds a graduate degree in Urban Economic Geography and undergraduate degrees in both Economic Geography and Political Science from the University of California. Before entering the private sector, he taught urban economic geography, regional geography, quantitative methods and graduate seminars at the University of California, Santa Barbara.

and recreational activity — the "live-work-play" environment we know in many downtowns today that has become so attractive to consumers, businesses and investors.

From my notes while reading *24-Hour Cities*, there are common ingredients to Kelly's recipe for successful 24-hour cities to evolve. Among those ingredients are demographic and economic diversity, employment opportunity, housing opportunity and diversity, retail and service offerings, available transportation (both public and the accommodation of private forms), public safety, and a variety of cultural amenities that enhance quality of life (including the arts and recreational spaces, restaurants and bars as well as 24-hour pharmacies). It is interesting to note that Kelly discovers in his research that, by, "sustaining robust market conditions in their downtowns, the attributes of 24-hour cities contribute to overall economic growth regionally." That is, as the 24-hour city itself thrives, so does the metropolitan area, including the suburban envelope that surrounds it.

This is all for the good and makes for an interesting read on the qualitative components of thriving 24-hour cities, including where some have succeeded in creating that environment, are close to succeeding, or have failed. Later in his book, Kelly quantifies a few indicators of "24-hourness" in certain cities and compares them to certain "9-to-5" cities and ultimately to their desirability as investment markets. Some of those indicators include electricity consumption, traffic flows, the presence of retail/food & beverage/cultural venues/nightlife and (importantly) population density.

While reading, I was reminded of my early career in real estate market research. Years ago, I was conducting a market study for an office investment in Richmond, Virginia. Many of the preferred elements for our investment portfolio were there, and the Richmond market was poised for economic resurgence that made the investment attractive. But one thing, according to my CEO, was missing. When he visited Richmond to see the building, he didn't see anyone out on the sidewalks. Nobody was out strolling on their way to lunch at midday or walking to the bars in late afternoon. I realized his point as soon as he made it. Richmond seemed almost deserted. There was a strong presence of business in many forms, especially in the arts and advertising at the time; there was a solid educational presence with Virginia Commonwealth University; and, there were many new bars and restaurants in the Shockoe Slip area near downtown. But, there were few people out shopping, dining or drinking. What I didn't realize at the time was that my CEO and I had both visited Richmond in late spring and early summer, and Richmond was oppressively hot and humid at that time of year. People walked inside connecting, air-conditioned, corridors between buildings and the restaurants, shops and bars that were in them. Another factor, of course, speaks directly to Kelly's differentiation between 24-hour cities and 9-to-5 cities: Richmond was clearly a 9-to-5 city, with commuters returning home to the suburbs at the end of the day. I do not have current data on the population density of Richmond, but my guess is that it resembles many of the 9-to-5 cities referenced in this book.

Speaking to the attractiveness of 24-hour cities for investment, Kelly looks at several data points in the office sector that clearly suggest they have an edge over their 9-to-5 counterparts. Among these he includes: supply concentrations, absorption and vacancy trends, rent growth, and investment returns a la NCREIF. The numbers and the charts are revealing, with a preponderance of the data showing that 24-hour cities outperform on nearly all counts. Little wonder that so much capital, including overseas capital, looks to these markets for deployment. And, while many investors search for yield in secondary or tertiary markets these days, the longer term performance clearly belongs to 24-hour cities. It is also notable that, as Kelly points out, these are the markets that have recovered relatively rapidly from the Great Recession, enhancing their commercial attractiveness, and, in many cases, exceeding pre-recession levels.

One of the more enjoyable sections is Kelly's section in Chapter 8, called "Peregrinations: the 24-hour and 9-to-5 cities studied." Here, he offers brief qualitative capsules of some of the cities highlighted in the study. I found myself nodding in agreement with his perceptions, occasionally sitting up as he introduces an interesting observation that I, myself, had not made in traveling to the same places. Full disclosure: I have been to all of them more than once, lived in or have family in or near several (including NYC, Philly, LA, Chicago and D.C.), and grew up in another (San Francisco). His observations are astute and really do capture the essence of these places.

I take issue only with a few typos and some of the charts and tables. While Kelly ably walks us through the charts and tables, I found it a tad cumbersome to read through his discussion and then have to flip back to the exhibit at hand. A few of the charts, in particular, could be better annotated to allow the reader to more readily recognize the metrics involved and their implications. And, there are a couple of tables — especially the table on "Journey-to-Work data" (Figure 7.6) where I had difficulty following the narrative and the numbers. Not a big deal, really, for as comprehensive a discussion as this book represents. I won't quibble with the typos (the biggie on page 261 "... whereas the 9-to-5 cluster had about 675,000 million square feet ..." should probably just say "... 675 million square feet ...").

There is much more that can be said about *24-Hour Cities*. It is a wonderfully comprehensive — and generally enjoyable — read. And, Hugh Kelly has a decidedly skilled and elegant hand at covering the material. I needed to take frequent breaks while reading it, in order to digest one part of the banquet before moving on to the next. I enjoyed the "recipe," and I will keep this one in my library for future reference, as I am quite certain that the material will remain useful for some time to come. And, if ever again given the privilege to teach one of my classes in urban economic geography, I think I may put it on the list of required reading. ■