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Redevelopment, Property Values and The Neighborhood Life Cycle: An Impact Analysis of Downtown Lexington Redevelopment

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Redevelopment, Property Values and The Neighborhood Life Cycle

An Impact Analysis of
Downtown Lexington Redevelopment

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Capstone Project
2008

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Executive Summary

Over the past century, downtown regions have seen a great deal of transition, from powerhouse city centers to dilapidated slums. Downtown can be the hub of a city's entire economic and cultural life, but it can also be the stigma of a city's problems. It is easily one of the most dynamic regions of a city. But why do these regions fail? I contend there are forces at work, which lead to the failure of a downtown region, but there are also equal, if not more powerful forces that can lead a bring a city center back from the brink.

In this report I agree with the idea that all neighborhoods have a life cycle, whether they are in a downtown area or a suburb. I hypothesize that redevelopment (defined as either completely new building projects or simply renovations of an older structure) is the key to improvement of a downtown region. Additionally, redevelopment acts as a catalyst to move a neighborhood through the cycle. Redevelopment eventually leads to growth within the region, which can be measured through property values. It is property values that reveal to us the current trend of the downtown area. Focusing on Lexington, Kentucky as the city of analysis, and using **assessed** property values, I looked for trends over a seven-year period between 2001 and 2007, in an attempt to assess the current cycle of different Lexington neighborhoods.

The study begins by focusing on work done by Steven McGovern. He gives us a historical context of why some downtown regions declined over the past century. Downtown was originally industrial, residential and commercial centers. After WWII, beginning in the 1950s, industry began to move from a center city location to a city's outer fringes. Populations, in turn, moved to stay near their jobs, eventually forming suburbs away from downtown. This resulted in an overall lack of capital investment in downtown, and lead to the eventual pullout of other businesses (i.e. retail, restaurants, entertainment). Near the end of the 20th century (late 1980s and 1990s), downtown began to see a resurgence of capital investment through commercial ventures, including office and public building development, which improved the area and renewed interest in the region.

Lexington shows similar characteristics to the cities cited in McGovern's study. In the early 1900s, Lexington was a tobacco product manufacturing powerhouse with most industry located downtown. As a result, employees also resided in the downtown vicinity. However, by the latter half of the 20th century, Lexington had been greatly transformed. Tobacco product manufacturing had declined and other notable companies, such as IBM, had moved in, establishing themselves near the outer fringes of the city. This led to a migration of population from downtown to suburbs located further away.

In Daniel Shefer's study, he contends that all neighborhoods go through a life cycle, consisting of periods of growth, stability, deterioration and decay. He discusses the processes involved in each step of the cycle, including levels of capital investment, infrastructure development, crime, homelessness and city involvement. Shefer's study is one of the main points of my hypothesis, but while Shefer focuses on each step of the cycle, I am more interested in what causes a neighborhood to move from one step of the cycle to another. Once again, I feel that redevelopment is the key.

For my analysis, I selected 4 "focus properties" to analyze their surrounding property values. Focus properties were defined as properties that have seen redevelopment in the past seven years, but were completed with enough time to have newly assessed

property values. I compared the focus properties to four additional control/non-redeveloped properties. Control properties were defined as properties that have not seen any redevelopment in the past seven years, but showed some similar characteristics to the focus property (i.e. location, types of properties surrounding them, size, public/private).

Upon collecting the property values, I compiled the data into spreadsheets. Correcting for inflation, I calculated average value, 7-year change and average percent change for each property. I also calculated total values for the eight neighborhoods and for focus/control properties in general. After removing public properties from the data (they are calculated differently and therefore diluted the data), I compared the figures.

On average, neighborhoods with redeveloped property increased in value by approximately 53 percent, while neighborhoods with non-redeveloped property increased by 43 percent, over the seven-year period. Three out of four focus properties were located in neighborhoods in a state of growth and three out of four control properties were located in neighborhoods in a state of stability.

Correlation does not necessarily mean causation, but the results of this study reveal interesting possibilities. Property values in redeveloped neighborhoods seem to increase more rapidly than in non-redeveloped neighborhoods. Although it does not necessarily prove the hypothesis, more research should be done to see if the results are simply spurious or are actually viable.

Introduction

For this study, I intend to examine whether redevelopment in downtown areas benefits in the long run. I will focus on the downtown area of Lexington, Kentucky, using recent new building projects as my units of analysis. I will use the collective property values of the buildings surrounding these projects over a seven-year period to show the before and after effects of improving a section of downtown. For a means of comparison, I have also collected property data on non-developed inner-city regions. I believe that by building or renovating a new structure the surrounding properties also increase in value. I propose that people are interested in living in a center city area, but have been driven away due to the lack of investment and care by organizations in the downtown area. I hypothesize that redevelopment leads to increased property values, which in turn, leads to change in a neighborhood's life cycle.

This analysis begins with a look into two previous studies on the general cause of downtown deterioration and the life cycle of a downtown area. I intend to relate both studies to downtown Lexington, KY, and show that Lexington has gone through (or is going through) the same processes as mentioned in these studies. In particular, I plan to use the data I have collected on property values to help explain what causes a downtown region to follow each step of a neighborhood life cycle. Eventually, I would like the reader of this analysis to better understand the possibility that redevelopment leads to improved overall property values, which ideally would lead to even more redevelopment and growth in the downtown region.

Origins and Change

Before discussing how to improve a downtown area, it is necessary to gain an understanding of how inner cities fall apart in the first place. Steven McGovern begins

his discussion concerning the decline of downtown areas around the middle of the 20th century, when industrial manufacturing - which had largely been condensed to metropolitan areas - began to relocate to suburban and rural locations (McGovern, 1998). The end result was that many industries transitioned to other countries, where labor was noticeably cheaper. However, this process lasted for a considerable period, and in the meantime, many things occurred, each of which contributed to further dissipation of downtown areas. McGovern points out multiple factors to consider:

- Changes in lifestyle preferences made millions desire single-family homes with larger back yards and personal garages, located in suburbs far away from “congested cities”. The most noticeable migrations to suburban neighborhoods from downtown areas occurred between the late 1960s into the early 1980s (McGovern, 1998). However, some of the transitions began as early as the 1950s, following World War II.
- New transportation technology enabled people to live in suburban areas while still being able to work in downtown. Increased development of railway systems, bussing, rapid transit (subways) and, most importantly, the expansion of Interstate Highways all occurred between the 1950s and into the 1970s (McGovern, 1998).
- As downtown industrial complexes shut down and relocated, residents were also forced to relocate to find other job opportunities. This resulted in low turnouts for local restaurants, department stores, pharmacies and community institutions, including schools, clubs and churches, all of which led to their eventual departure from the downtown scene (McGovern, 1998).
- The relocation of both residents and businesses into suburban areas caused the urban tax base to eventually decline. City officials no longer had the resources to cover the costs of increasing problems, such as crime, poverty and homelessness, much of which was interrelated. Those residents who were unable or could not afford to move from downtown neighborhoods found that jobs became drastically scarce (McGovern, 1998).

Lexington was not immune to the same forces that caused many other cities to experience turbulence throughout the 20th century. However, in the case of Lexington, the city did not suffer as severe an economic and center-city downturn as some other large cities, due to critical planning on the part of the city's infrastructure, economic and technological fronts (Hillery Jr., 1966). In regards to McGovern, the primary changes, which led to some industrial decline in downtown Lexington, was the rise and fall of tobacco manufacturing. During the early to mid 1900s, Lexington was considered a powerhouse in the tobacco manufacturing community with most of the production facilities and warehouses located in the downtown area. As a result, many of the tobacco facility's employees lived in nearby neighborhoods or adjacent buildings in the downtown area.

By the mid 1950s and into the 1960s, the local tobacco-manufacturing base was slowly beginning to lose its share to much larger conglomerates along the eastern seaboard, and by the 1970s and into the 1980s it was only a suggestion of what it used to be. However, Lexington's economy was generally not harmed by the decline of the tobacco-manufacturing base. During the period from 1954 to 1963, many notable companies, such as IBM, Square D, Dixie Cup and Trane, had opened operations in Lexington, and as a result, employment grew 260 percent (Hollingsworth, 2004). On the other hand, many of these new operations were not located in the downtown area, but rather towards the fringes of the city, where access was much more open and cheaper property was more readily available.

As the tobacco base declined in the inner-city region, new and technologically advanced manufacturing increased, invariably replacing the old system. This resulted in a few important economic reactions. First, there was no longer any reason to live in the

downtown region if the jobs were located elsewhere. This would fall in line with McGovern's third point of downtown decline - "as downtown industrial complexes shut down and relocated, residents were also forced to relocate to find other job opportunities," (McGovern, 1998). Furthermore, this "lifestyle change[s] made millions desire single-family homes with larger back yards and personal garages, located in suburbs far away from 'congested cities' " (McGovern, 1998).

Although Steven McGovern helps us understand why downtown areas such as Lexington's have declined over the past few decades, and on more general terms, what factors lead to city center decline, his analysis does little to explain the technical aspects around the rise and fall of a downtown region. The following section sheds some light on the subject.

Land Use Economics

In his book on Urban Economics, Douglas Brown helps to clarify some of the underlying processes that are taking place, which lead to increases or decreases in the downtown region (1974). The section of Brown's study that best relates to McGovern's analysis and also to this study, deals with general urban land-use models. There are three primary land-use models commonly discussed when dealing with urban areas: (1) concentric zones developed by E.W. Burgess, (2) radial-sector theory by Homer Hoyt, and (3) the multiple-nuclei model by Harris and Ullman (Brown, 1974). For the purposes of this analysis, I will focus on the concentric zones model.

"According to Burgess, a city expands from the center in the form of concentric zones," (See figure 1a) (Brown 1974, 100). Each zone represents a specific industry or development group, located around a **central business district (CBD)**. The five zones most commonly associated with a downtown region are retail (Z.1), office/transitional

property (Z.2), residential (usually lower/middle-income) (Z.3), manufacturing/upper-income residents (Z.4) and agricultural/high-income residents (Z.5). Since the CBD is the primary location for activity, each zone is reliant on its movements. As downtown area declines, each zone surrounding it grows larger. When downtown is on the rise and increasing in popularity, zones tend to shrink or tighten up. However, it tends to only be zones 1 and 2 that shrink with the CBD. The outer zones (4 and 5) will often remain at the same level due to development that has already occurred. In the case of Lexington, IBM and Lexmark are excellent examples of industrial developments in the outer zones, while Hamburg Pavilion and Fayette Mall are examples of commercial developments. All of these developments compete with the CBD. The third zone can often go either way—that is, remain the same size or shrink with the CBD.

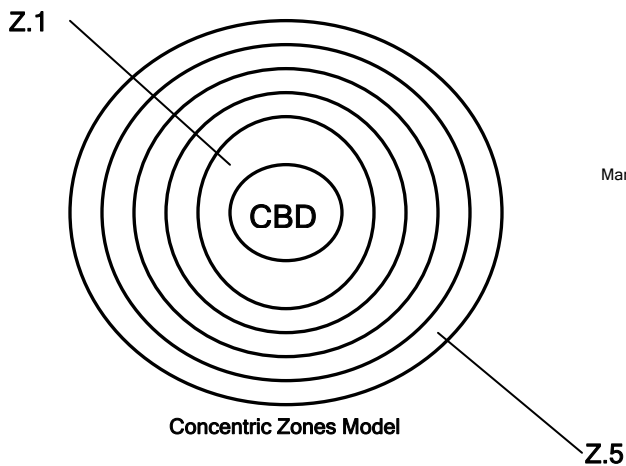


Figure 1.a

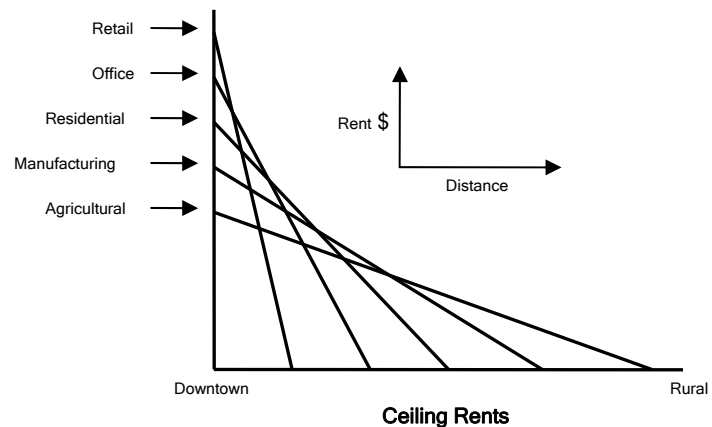


Figure 1.b

One common reason for the design of this model involves costs of living and rent. People living in zones 4 and 5 have to pay the greatest in transportation costs (gas, public transit, etc.), but those groups closest to the CBD, such as retail and office, must pay the highest in rents (Figure 1.b). Thus, populations at the extremes of both rent and distance pay more than those near the center. This also tends to be where most lower and middle class residents live. Additionally, new concentric zones can develop within

established concentric zones. For example, Hamburg Pavilion has its own retail, office and residential areas, which compete with downtown Lexington, thereby shrinking the new zones and expanding the old ones. Rents in each location react accordingly.

The Process Defined

Daniel Shefer contends Neighborhood deterioration is a multi-step process. He developed this idea through analyzing neighborhoods in Israel and eventually establishing the theory of a neighborhood life cycle. Deterioration begins when a once stable neighborhood is no longer able to sustain itself through traditional means (i.e. capital investments), which is normally needed to operate, maintain and replace existing facilities (Shefer, 1981). Shefer poses that the life of a neighborhood can be categorized into four distinct stages: growth, stability, deterioration and decay (Shefer, 1981).

During periods of **growth**, capital investment is on the rise. City infrastructure, including transportation, traffic, police, fire, EMS, sanitary and public works are all consistently being improved and are adequately funded. Population rates among center city residents usually increase substantially, as does a city's tax income, service utilization and commercial business income. Additionally, when a neighborhood is in a period of growth, property values can see average long-term increases of 40 to 70 percent.

In periods of **stability**, the neighborhood can either have reached its peak in growth, or can be between periods of growth. Stabilization is often categorized by a slow down in population growth. City infrastructure is maintained, but in most cases, funding is not increased and new improvements are not often undertaken. Tax income, as an example, does not usually see the record returns as it did in a period of growth. However, it is important to stress *maintenance* during a period of stability. This is a

common issue that separates stabilization and the next step, deterioration. In general, change in average long-term property values can vary widely, from -10 to 40 percent. If a neighborhood decreases in value, it does not necessarily mean that it has yet reached a state of deterioration. The decrease in value is usually a trend over a period of years.

The first and foremost sign that a neighborhood has begun a period of **deterioration** is economic in its origins. Investments reach an all-time low, with few organizations buying or improving property. The value of property gradually (or sometimes rapidly) falls and the property's appearance is commonly affected as well (property tends to transition into dilapidation). Population rates often decline as residents move to other neighborhoods (normally not adjacent to the deteriorating neighborhood). As a result, businesses are affected from the loss of revenue and tend to move to different locations. Additionally, during periods of deterioration, crime, poverty and homelessness are on the rise.

The final stage in a neighborhood life cycle is **decay**. This is a notable point for a neighborhood because it can only improve and not become any worse. Decay is categorized by the near or total lack of any investment. Properties are often owned by entities that do not reside in the neighborhood ("slum lords"), they consist of condemned structures, have an overwhelming amount of crime and homelessness (in some cases, the number of homeless is greater than residents) and have few, if any, functioning businesses. A neighborhood in a state of decay can only proceed to a state of growth, but is very difficult and often rare. Major changes in crime management, economic planning and infrastructure development must be taken to transition a neighborhood out of decay.

The Case for Lexington

Daniel Shefer's study on neighborhood life cycles relates to Lexington in many ways. For this analysis, I focus the majority of my attention to Shefer's discussion on the transition between each step of the neighborhood cycle—change from growth to stability, stability to deterioration and so forth. According to Shefer, to transition from one step of the cycle to another, something must occur, such as an increase/decrease in capital investment or a change in downtown policy, which acts as a catalyst to increase spending and investment in the area.

Although many small projects are critical to the welfare of a downtown region, such as aesthetic improvements (landscaping, sanitary, trash cleanup), as well as the adequate funding of necessary services such as police, fire and EMS, I agree with Shefer that continuous capital projects are the missing piece to any strong city center.

Lexington Analysis

Lexington was selected as the city for this analysis for a couple of reasons. First of all, I live in Lexington, so it makes sense from a convenience point of view. The Lexington-Fayette County Urban Government (LFUCG) has well-kept, up-to-date and readily available property value records. I believe this improved the accuracy of the study, because I did not have to piece together information from multiple sources, and was able to find all of the information I needed from a single reputable source—the Property Value Administrator's Office (PVA).

The second reason Lexington makes sense for this study is the fact that the city has experienced decline and growth as discussed by McGovern, and it exemplifies stages of a neighborhood life cycle, as defined by Shefer. Lexington also parallels urban

redevelopment studies done by Roberts & Sykes (2000), Fainstein et. al. (1983) and Holiday et. al. (1973). The city is in a definite state of flux:

- There are current redevelopment projects being carried out in the downtown area at the present time, including the new College Town/Martin Luther King Boulevard Residential Project (Lexington DDA, 2007);
- There is still much needed redevelopment on the north side of downtown, where a former major manufacturing sector has since declined;
- The southern side of the city (defined by locations south of US 60) is arguably the most stable. It is heavily commercial and residential, with some increase in investment and home building.

In general, downtown Lexington is composed of neighborhoods in states of growth, stability and deterioration. I did not come across any sections of the city in a state of decay (nor do I believe there are any parts of Lexington that would currently fit the definition of decay). For the most part, decay is the most rare stage in the life cycle and is only usually seen in very large cities (i.e. Chicago or New York) or in cities formerly reliant on one industry that has since relocated (i.e. Flint, Michigan or Youngstown, Ohio).

Methodology

Criteria

This study measures certain property values over a 7-year period from 2001 to 2007. The study serves to analyze properties that surround or are located near relatively recent redevelopment projects, which I refer to as “**focus properties**”, and compare their values to those of properties in sections of downtown with little or no redevelopment. I selected four properties from the downtown Lexington area as focus properties for my analysis. The focus properties met the following criteria:

- 1.) The property had been built or renovated during the past 7 years with the project being finished by 2006. This allows me to measure the before and after effects of the project on its nearby properties.
- 2.) The properties could fall into any category - that is, private, public, commercial, office, etc. There was no one particular focus of property type.
- 3.) The properties were located in different parts of the downtown area. No two properties were within a city block of another. This allows me to gain a better understanding of whether or not location has anything to do with the property's value.
- 4.) The properties were the only redevelopment projects being done in their respective location, at that time. Since their completion, other projects have begun or have been finished in the same vicinity, but were at most completed in the past year and most likely have not yet affected nearby property values.
- 5.) Before redevelopment, each focus property was located in what Shefer would define as a neighborhood at a state of stability or deterioration, but not growth or decay.

I selected four additional properties in locations that have not seen redevelopment over the past seven years to compare to the data I collected on each focus property. I used the same collection and analysis techniques for all properties to keep the analysis fair and unbiased. Similar to the focus properties, each non-redeveloped property was located in the downtown area; no two properties were located within a city block of another; they could fall into any category (private/public); and they are still being used for some purpose (i.e. not abandoned). The four additional properties are also important because they are in neighborhoods similar to those of the focus properties before redevelopment.

Purpose

My reason for focusing on redevelopment is that it reflects the rate of redevelopment. I believe that redevelopment projects act as a "turning point," and are one of the primary

factors that shift a neighborhood from one step of Shefer's life cycle to another. Most notably, a redevelopment project can move a neighborhood from stability to growth, from deterioration to growth, from deterioration to stability or from decay to growth.

Redevelopment projects also draw the population's attention back to the downtown area and away from development projects occurring on or near the outskirts of a city. This would reverse the process as defined by McGovern. Furthermore, by refocusing development economically and commercially, a city will logically increase development in retail, office, residential and manufacturing. A potentially simple way to see if redevelopment has made an impact is to look at historical property values over the time span of redevelopment.

"Focus" Property Selection

The first focus property I selected is the **Robert F. Stephens Circuit/District Courthouse** complex located on 120 and 150 North Limestone Street between Main and Barr Streets. The courthouse complex, finished in 2002, is considered one of the largest redevelopment projects in recent downtown history. It also is one of the costliest with a fair cash value (FCV) of \$85 million. The buildings are located near the center of the downtown area and have offered a convenient location for many public events, including multiple 4th of July celebrations, culture festivals and protests.

The second focus property is the **JDL Office Building**, which most notably houses the US Attorney's Office for the Eastern District of Kentucky. The building is located on the corner of West Vine and South Mill Streets, on what used to be a parking lot. Its construction was completed in mid 2006 at a cost of around \$22 million and is the newest of the four focus properties. The building is located near the south-central end of the downtown area. It has drastically increased the FCV of the property on which it was

built, from \$96,700 in 2003 to approximately \$4.5 million in 2007. The first two focus properties are notable because they are both new developments and not renovations like the next two properties.

The third focus property is the **Market Place**, which is located approximately two blocks northeast of the JDL Office Building and about four blocks northwest of the courthouse. The building complex was initially constructed in the 1980s for shopping, dining and office purposes, but was completed at a time when much of Lexington's expansion was taking place on the outer reaches of town near the Fayette and Turfland Malls. As a result, the Market Place was an investment and commercial flop, and eventually was converted into office spaces. However, within the past decade, MES Enterprises in conjunction with the Lexington Division of Planning, has breathed new life into the complex through renovations, the addition of wireless internet access, increased advertisements to possible tenants and increased parking. As a result, some new commercial development has occurred. Currently, businesses such as Starbucks have helped the building regain some of its original promise, and more restaurants and other commercial properties are continuing to move into the structure.

The fourth focus property, **University Lofts**, is in a completely different location from the previous three, near the University of Kentucky campus. The property is a historical preservation tax credit project between the Kentucky Heritage Council and McThomas Property Inc. The structure itself is a former tobacco product processing and manufacturing facility, which was basically stripped from the inside and converted into loft style apartments. University Lofts is located on Bolivar Street off of South Upper and shares the block with South Hill Station Lofts, another historical preservation project owned and undertaken by the same organization as University Lofts. This particular

project is interesting because it was the first of multiple redevelopment projects in the same location, acting as a type of catalyst and further exemplifying the point that this analysis intends to produce.

Non-redeveloped Property Selection

The first non-redeveloped property is the **Carnegie Center** located on West Second Street, near the north side of the downtown area. The Carnegie Center is currently a non-profit center for literacy and sits in a relatively older neighborhood of Lexington, with a great deal of historical properties. I debated using this location for two reasons. Although the Carnegie Center building has not been renovated or redeveloped in the past fifteen years, many of the homes in the neighborhood are undergoing tax-credit historical renovations. These projects are on a much smaller scale than the capital investment of each focus properties, but nevertheless could have a substantial effect on the surrounding neighborhood.

The second non-redeveloped property is the downtown Lexington **YMCA** located on East High Street. This building lies between the University of Kentucky campus and the southern fringe of the downtown area, in a neighborhood largely composed of residential properties to the south, and office buildings to the north.

The other two remaining non-redeveloped properties are the ones surrounding **212 Rose Street** and **372 South Mill Street**. With these properties, I wanted to continue with similar residential locations like the Carnegie Center and the YMCA. I selected the two properties simply because their location was still in the downtown area; they were in neighborhoods that I had not yet analyzed; and they were not near any of the other neighborhoods that have been analyzed. These two groups of properties could be considered about half rental/apartment type and half traditional homes. They share

similar characteristics to the YMCA and University Lofts properties in that they are primarily residential with some commercial property nearby.

Data Collection Process

The data I used for my analysis was collected through the Lexington-Fayette Property Value Administrator's database. With the use of Geographic Information Systems (GIS) software, I was able to access maps of each focus property and the surrounding properties as well, all of which included necessary parcel and zoning information. After compiling lists of addresses for each focus property, I then entered the information into the PVA's property record search engine. This revealed three specific pieces of information:

1. The property's value each year over the past 7 years.
2. Whether the property is privately or publicly owned.
3. Information that could explain changes in value over the period (change in ownership, parking structure, non-profit owned).

From this point I organized the data into spreadsheets and sorted the information by address and year. After all data was collected I calculated each property's average value and its change over the seven-year period, while correcting for inflation to keep the values comparable. Each year's total average was also calculated to see the overall trend among all properties in a specific location over the entire seven-year period. Still correcting for inflation, I calculated total average property value for all average property values for the seven-year period, which is basically an average of averages. The final and possibly most important value to be extracted from the data is percent change in property value. I calculated percent change for individual property and total property. I believe the total property percent change value will give us the greatest means of comparison between redeveloped and non-redeveloped properties.

To correct for inflation, I utilized data from the Bureau of Labor Statistics - most importantly the Urban Consumer Price Index (CPI-U), which is figured in 1982 dollars. I calculated the 2001 to 2007 inflation rate to be approximately 17.076 percent. Finally, I combined all focus property totals and compared those with the combined non-redeveloped property totals.

Limitations

During my research and data collection process, I ran into a few problems that may or may not have had some impact on this study. In regards to the research, I found that in most instances literature on urban redevelopment was mainly about urban renewal, which is not the focus of this report. My study is concerned with more recent occurrences, yet most urban renewal projects took place during the 1950s and 1960s. Additionally, most studies relied on the general concepts involving the process of urban redevelopment and were directed to someone who was in the process of improving an urban area. This was one particular reason that I focused so heavily on McGovern and Shefer's studies.

Another major drawback to my analysis was in the data collection. I initially wanted to cover a ten-year period instead of seven-years. When I contacted the PVA's office, I found that their online access records only go back seven years. Obtaining additional records from 1998 to 2000 required monetary resources that were unavailable. I also would have liked to collect tax information on some of the businesses in the downtown area and compare them to property values over the same period to see if there was a correlation. However, an analysis of this scope would require more time than what was available.

Additionally, the property values used in this study were based on assessed property values, which are an imperfect measure, and not real property values, which are much more difficult to collect. Ideally, city government should reassess values annually, but this is often not the case. In these instances, the local government will use the previous year’s assessed value for the current year.

Data Analysis and Results

| | Focus Properties without Public Owned | | | | |
|----------------------------------|--|----------------------------|---------------------|-------------------------|----------------------|
| | Stephens Courthouse | JDL Office Building | Market Place | University Lofts | Total Average |
| Average Value | 651,635.29 | 3,285,324.84 | 4,645,611.54 | 384,135.16 | 2,241,676.71 |
| 7 Year Change w/Inflation | 121,581.22 | 214,174.57 | -64,384.11 | 186,936.21 | 114,576.97 |
| Average Percent Change | 69.90% | 47.94% | 32.13% | 61.01% | 52.75% |

Figure 2a

Robert J. Stephens Courthouse

The data has revealed to me a great deal of information and a few subtleties that I had not anticipated in advance. I begin with the Robert J. Stephens Courthouse data. Upon first compiling this particular dataset, I noticed that public properties had not increased in value. This became a general trend for most properties. Further research revealed that publicly owned properties are not assessed the same way as private properties. Therefore, their data tends to dilute the overall increases in private property values. Keeping this in mind, when focusing on average percent change, surrounding property value over the seven-year period increased by 54.59 percent. However, when you remove public properties from the data, the average increases to 69.9 percent (Figure 2a). Both figures reveal a drastic increase in property values. A notable mention is Adonai Custom Tailoring, located at 111 South Limestone Street, which increased in

value from \$40,000 to \$165,000 over the period or 259.14 percent. This is only one of nine different properties in the area that had value changes of over 100 percent. I would classify this neighborhood in a period of growth.

JDL Office Building

This is the first property where we see both increases and decreases in values over the period. Interestingly, the properties that decreased in value are also located the furthest from the focus property. On average, before accounting for public properties, change in value is 41.33 percent. Excluding public property the same figure increases to 47.94 percent, which is not nearly as drastic of change as the courthouse assessment (Figure 2a). This could be for a couple of reasons. First, the JDL Office Building is not located near much commercial property, but rather near offices, residences and parking; these do not increase in value as rapidly. Secondly, as I noted earlier, this is the newest of the four focus properties, having only been completed less than two years ago. It is very possible that not enough time has passed between the project's completion and the time of this analysis to get an accurate assessment of the building's impact on the surrounding area. Nevertheless, a near 48 percent increase in this short of time is notable. Without additional information, it is difficult to classify this neighborhood, but it would fall somewhere between stability and growth.

Market Place

The Market Place differs from the previous two focus properties because it is not a new redevelopment project, but rather an update/renovation of a property that was initially built in the 1980s. To reiterate, the Market Place has gone through a series of economic ups and downs over the past two of decades, partially because of poor initial planning, but has seen a recent resurgence of investment and tenants. In the past seven

years, average property value surrounding the Market Place has not increased much, and the average percent change among individual properties has increased only by 26.95 percent. Removing public properties, the value increases to 32.13 percent (Figure 2a). Although it is an increase, it is by far the lowest yet. Later research revealed that this value does not denote growth. One hypothesis for this difference could be that renovation projects do not yield as great of returns as new structures. Conversely, it is possible that the Market Place still is not the downtown commercial and economic powerhouse that the original developers had intended. In either case, this property is the anomaly of the first four. I would classify this neighborhood in a state of stability.

University Lofts

The final focus property is another renovation project, similar to the Market Place, but located in a much more highly populated area near UK's campus. University Lofts is part of a two-part complex with South Hill Lofts (located at 245 Bolivar Street), both of which used to be former tobacco product manufacturing facilities. Over the seven-year period, average property values have increased substantially, with an average increase of 61 percent, still excluding public properties (Figure 2a). Additionally, South Hill Lofts' property value has increased by 229.03 percent. I would classify this neighborhood in a state of growth.

This is arguably the most important property of the all focus properties because of its significance with the former tobacco-manufacturing base that was located in Lexington. Earlier I pointed out the fact that one of the main reasons for the decline of downtown Lexington was because the city's industry and population moved to the outer fringes during the 1960s and 1970s. However, we now see a prime example of how abandoned tobacco facilities can be given a new lease on life, improve the overall value of the area

where they are located and draw people back to the downtown area. Something else worth noting is the fact that not long after the completion of the University Lofts/South Hill Lofts complex, the Center Court Condominium complex was constructed, which included both residential and commercial properties.

| | Non-developed Properties without Public Owned. | | | | |
|----------------------------------|---|-------------|------------------------|-----------------------|----------------------|
| | Carnegie Center | YMCA | 212 Rose Street | 372 South Mill | Total Average |
| Average Value | 353,887.86 | 303,980.22 | 141,790.06 | 146,951.43 | 236,652.39 |
| 7 Year Change w/Inflation | 116,524.80 | 58,662.35 | 31,431.80 | 34,008.79 | 60,156.94 |
| Average Percent Change | 83.98% | 24.58% | 30.72% | 31.64% | 42.73% |

Figure 2b

Carnegie Center

The Carnegie Center is the first of four additional properties involving non-redeveloped neighborhoods. It is located in an older, but relatively stable section of Lexington. At first glance I thought this property would be a good contrast to the focus properties, but as the data shows, the Carnegie Center neighborhood ended up being the anomaly of the non-developed properties.

Average percent change is almost 84 percent (Figure 2b). Upon further research I found that three different houses in the neighborhood had recently undergone complete historical renovations (230 New Street, 316 West Second Street and 187 North Mill Street), one of which was almost an entire rebuild. These three projects had a major impact on the overall values of the neighborhood property and also reveal another critical point different than my original hypothesis. Multiple smaller redevelopment projects can be just as influential in the cycle of a neighborhood as can one large redevelopment project. On a side note, if I remove those three redeveloped houses from

the Carnegie Center data, the average percent change drops from 84 to 23 percent, but this does not make any sense.

YMCA

This neighborhood is interesting because it is the first one analyzed that did not contain any public-owned property, and therefore, did not require any modification to the data. There is not much to be said about the neighborhood. Most of the properties have increased in value, but only marginally (14 out of 25 properties show changes of 20 percent or less over the seven-year period). There are only two properties that show some substantial increases (%100+), but their increases are not enough to dramatically affect the overall average change among property values, which is 26 percent (Figure 2b). While still keeping the results of the Carnegie Center neighborhood in mind, this data is more of what I would expect in a neighborhood that has not seen much redevelopment. Additionally, the information coincides with my initial hypothesis that property values in neighborhoods with redevelopment are more likely to have higher property values. I would classify this neighborhood in a state of stability.

212 Rose Street

The Rose Street neighborhood is distinct because it does not have one particular property that it is centered on, unlike the examples mentioned thus far. I chose this neighborhood because it is still in the downtown area and is not near any of the other properties being studied. Additionally, like the YMCA, there are no publicly owned properties in the area, so the data did not require modification. The result similar to that of the YMCA data, but with no property value exceeding 100 percent change over the seven-year period. The average percent change for all properties is 30.72 percent (Figure 2b). I would classify this neighborhood in a state of stability.

372 South Mill Street

The final property is a building located at 372 South Mill Street. Similar to the Rose Street neighborhood, I selected this neighborhood it was in the downtown area, but was not near any of the other properties being analyzed. This neighborhood also did not have any public properties. The data reveals what I anticipated from a non-redeveloped neighborhood and closely mirrors the previous two neighborhoods. Average percent change for all properties is 31.64 percent, with only one notable increase of 146.49 percent for the house located at 375 South Mill. I would classify this neighborhood in a state of stability.

Results and Reaction

The result of this analysis tells us a few different things. There seems to be a definite correlation between redevelopment projects and the overall increase in the values of property located nearby.

If you remove the anomalies from each group—the Market Place from the focus properties and the Carnegie Center from the non-redeveloped properties—the average increase of focus property value is about 59 percent, versus a non-redeveloped increase of 29.45 percent. Although this is an interesting result, you cannot just simply ignore two neighborhoods.

Correlation does not necessarily mean causation. There are many other factors that could contribute to the difference in this analysis. Redevelopment may motivate owners to put more money back into their property if there is a possible return on their investment. It could be that Shefer's neighborhood life cycle, like the economy, naturally moves through ups and downs and cannot be controlled on the whole. It may have to do with the particular neighborhoods I selected. Would the results differ if I were to select

all new properties or if I were to do the analysis over a much longer period? These are all valid points to consider and further research should be conducted to find out which factors contribute an even greater increase in downtown property values.

Conclusion

There is a symbiotic relationship between a city and its downtown area; it is the center for commerce, business, leisure and government. Downtown is the heart, brain and soul of the city. Many of the world's most powerful cities can be judged by the strength of their downtown areas, and in this analysis, I have tried to relay the same message for Lexington, Kentucky. Over the course of this study I have raised many important points discussing redevelopment, property values and the neighborhood. I focused on downtown Lexington as a matter of convenience, but also because it serves as an excellent example of a dynamic and growing city center.

My initial hypothesis was that downtown redevelopment is one of many possible driving forces, which transition a city center through different states of economic and social prosperity. I focus on studies done by Steven McGovern and Daniel Shefer, both of which discuss trends in urban development over the past few decades. McGovern focuses on the historical side of how downtown areas initially declined during the mid 20th century, but were then revived by technological development and critical planning. Shefer focused on the general neighborhood "life cycle" that all cities seem to naturally go through, including periods of growth, stability, deterioration and decay. I tried to use both studies in context to help explain some of the ups and downs that center city Lexington has experienced over the past few decades.

Property values were the most logical choice to help show which state of the life cycle that each neighborhood was currently in. I compared four properties that had seen

recent redevelopment to four other properties that had not, and used a collection of property values from the eight surrounding neighborhoods to compare between redevelopment and non-redevelopment.

I feel this study reveals some important points when held up next to Shefer's study. After analyzing the data, I found that, on average, property values in redeveloped areas increased at almost double the rate of non-redeveloped areas. In three out of four cases, neighborhoods with redeveloped properties could be defined as in a state of growth. Conversely, in three out of four cases where neighborhoods did not have redevelopment, they could be defined as in a state of stability. This further strengthens the point that redevelopment acts as a catalyst between stages of the neighborhood life cycle.

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