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June 14, 2014

Mr. Mark Wittenburg  
Batis Development  
2933 SW Woodside Dr., Ste. 200  
Topeka, KS 66614

Letter of Opinion

Dear Mr. Wittenburg:

At your request, I am providing this letter of opinion relating to Batis Corporation's proposed rezoning. It pertains to a site located at the intersection of 29<sup>th</sup> Street and Gage Boulevard in Topeka. Although I have been provided with information about the site and the proposed development for it, I have not personally visited the site or the vicinity. My letter of opinion summarizes the location and proposed development, identifies what appears to be the key issue raised by residential property owners, reviews my charge and expertise, outlines the relevant land economic theory, assesses the relevant literature, and provides an opinion of the likely effects of the proposed development on nearby residential property.

### **Site**

The staff report relating to the proposed rezoning notes the following:

*The subject properties are located at the intersection of SW Gage Blvd and SW 29th Street (principal arterials), which is comprised of commercial development at the remaining three corners. An existing Walgreen's and retail center are located directly to the south. Two banks are located at the southeast corner of the intersection. A retail center, Sonic drive-in, and abandoned gas station are located at the northeast corner of the intersection.*

The Northwest corner is dominated by an 89-home subdivision approved in 1956 and built out by about 1959. The homes are slab-on-grade and are typically about 1,400 square feet. This area backs up to a creek and bike trail/park system known as Shunga Trail. This neighborhood is the primary pedestrian route between a park and the apartments located near the Southeast corner of the intersection.

This intersection is a transition zone between high income west Topeka and what appears to be homes of declining comprising central and east Topeka. Behind the banks on the Southeast corner are condos that appear in reasonable good condition plus eight apartment complexes.

Most of the homes at the residential corner appear to be reasonably well maintained and represent a mix of elderly and younger families; about a third of them are rented. Some of the rentals, however, appear to have been the subject of police activity, based on a police report in the public record shared with me. There can be many reasons for this, one of which is declining value because of gradual disinvestment leading to low rents that may attract tenants whose activities are subject to police review. These properties may not be consistent with highest and best use principles. In this area, my client has 11 homes under contract for purchase, eight of which are rentals.

### **Proposed Development**

Batis Development is proposing to rezone residential lots from R-1 to PUD C-2 to build a new 14,820 square foot Walgreens with drive-through pharmacy that is open 24-hours. In effect, the proposal expands slightly an existing commercial/retail area at one of Topeka's major intersections.

### **Central Issue**

As quoted to me by Mr. Wittenberg, there is the concern among some residential property owners that "Rezoning homes, even if they are crime infested, to commercial, will ruin our home values." I have been provided with:

A Citizen Participation Report;

A professional planner's article on the planning and design of commercial property within neighborhoods;

A trend line of property values of homes that abut a property line with a Walgreens in Topeka indicating that such Walgreens has not reduced those home values; and

A letter from whom I am advised is the largest residential broker in Topeka stating the values are already declining in the vicinity and the proposed Walgreens store would not impact future home values in a negative manner.

### **Charge**

I have been asked to evaluate the central issue. I am an expert in the field called "hedonic property analysis". This subject uses statistical techniques to decompose property values into contributing elements such lot size, structure characteristics, neighborhood features, economic influences, and other factors. My studies include determining the effect of landfills on property values (negative), the effect of protected farmland on urban land values (positive), the effect of suburban residential development on the value of land for farming (negative), the effect of various forms of transit on home values (positive for all forms of attached structures but negative for detached homes in very close proximity to rail stations though positive after just a few hundred feet), and related studies.

## **Expertise**

I am presently Presidential Professor of City and Metropolitan Planning at the University of Utah where I am also Executive Director of the Metropolitan Research Center, Adjunct Professor of Finance, and Co-Director of the Master of Real Estate Development program. On July 1, I will become Presidential Professor Emeritus at Utah and then become Professor of Urban Planning and Real Estate Development, and Associate Dean for Research, in the College of Architecture, Planning and Landscape Architecture at the University of Arizona in Tucson. (I will be nominated for a Regents' Professorship in the fall.) Previously, I was Professor and founding director of the program in Urban Affairs and Planning for Virginia Tech and Co-Director of the Metropolitan Institute. Prior to that engagement, I was Professor of City and Regional Planning as well as Professor of Public Policy at the Georgia Institute of Technology and served as Adjunct Professor of Law at Georgia State University. My curriculum vita is provided with this report.

My report includes a review of relevant land economic theory, review of relevant literature, application to the rezoning request, and a preliminary opinion addressing the central issue.

## **Relevant Land Economic Theory**

There are two strains of urban land economic theory relevant to the effect of proximity of residential land uses to commercial ones. One strain posits land values are determined by transportation costs such that as distance to an "attractor" use (such as an office or retail building) decreases, transportation costs also decreases causing land values to increase as the savings are "capitalized". All things being equal, residential properties located closer to office and retail uses should have a higher price than residential property farther away because travel costs to office and retail destinations are lower. The second strain posits that prices will decrease with proximity because of "disamenities" associated with commercial development, such as traffic congestion, noise and physical appearance or design.

The relevant question in this case is whether the proposed development will result in reducing values of nearby residential property either because there are only disamenity effects or the disamenity effects that overcome accessibility effects within a certain distance band.

## **Relevant Literature**

The field of hedonic property analysis is quite large and includes numerous studies addressing this very question. Indeed, this was the question addressed by one of my doctoral students, Dr. John Matthews, as part of his economics dissertation while attending Georgia State University. Because I worked closely with him on all aspects of his study, I draw substantially from his dissertation.

In his synthesis of land economic studies through the late 1970s, Mills (1979)<sup>1</sup> observes that for "most nonresidential activities studied, the effects seem remarkably small. Coefficients are frequently insignificant and occasionally have the wrong sign. Even when significant, most effects are found to be small and decline rapidly with distance" (Mills1979: 521). He points out that many kinds of commercial development create jobs and shopping opportunities so proximity

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<sup>1</sup> Mills, E. S. (1979). Economic Analysis of Urban Land-Use Controls. In P. Miezkowski and M. Straszheim (Eds.), *Current Issues in Urban Economics* (pp. 511-541). Baltimore: Johns Hopkins University Press.

to those activities is valuable: “residential land values may even fall with distance from a nonresidential site; but that does not imply that there are no external diseconomies from the site, only that they are more than off-set by the advantages of proximity” (Mills 1979: 521).

In one of the more widely cited works of this genre, Grether and Mieskowski (1980)<sup>2</sup> evaluate the association between industrial, office/retail, high-density dwellings, and highways on the prices of nearby dwellings with respect to distance from the non-residential use. They found no systematic relationship between nonresidential land use and housing prices.

In the same year, Li and Brown (1980)<sup>3</sup> published another widely cited study that tests for the effects of “micro-neighborhood variables - aesthetic attributes, pollution levels, and proximity” to industries, major highways, and commercial establishments - on housing prices (Li & Brown 1980: 125). They explicitly test for the two theories I noted above: whether the convenience of proximity will enhance property value as distance increases and whether disamenity influences will weaken as distance increases. "Empirical findings suggest that proximity to certain non-residential land uses affects housing prices by having a positive value for accessibility and a negative value for external diseconomies (congestion, pollution, and unsightliness). Furthermore, visual quality and noise pollution have impacts on housing prices" (Li & Brown 1980: 125). They find that positive effects have greater range than negative effects.

My own work finds similarly but with an important nuance. With respect to detached residential proximity to elevated heavy-rail transit stations, my graduate student and I (Nelson and McClesky 1990)<sup>4</sup> found that the positive price effect of convenience to transit outweighs the negative price effects of disamenities arising from proximity to the elevated stations. In later work (Nelson 1992), however, I found smaller but still positive value effects of station proximity in higher income neighborhoods but much higher positive value effects of station proximity in lower income neighborhoods. I deduced that lower income areas are more responsive positively to such investments as transit stations and by implication to the convenience of being closer to office, retail, and other nonresidential land uses.

Which leads me to research conducted by Matthews (2006).<sup>5</sup> In his own words:

*As residential development expands into new areas, commercial development follows as markets are created. Local elected officials and policy makers are frequently confronted with homeowners protesting that the presence of new commercial development, especially if it is close by, will run down their property values. This is the well-known NIMBY (Not In My Back Yard) syndrome. This NIMBY reaction occurs when regulatory permission is sought for development that ranges from “7-11” convenience stores to regional malls. Local homeowners make their claim of threatened property values*

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<sup>2</sup> Grether, D. M., & Mieszkowski, P. (1980). The Effects of Nonresidential Land Uses on the Prices of Adjacent Housing: Some Estimates of Proximity Effects. *Journal of Urban Economics*, 8(1), 1-15.

<sup>3</sup> Li, M. M., & Brown, J. (1980). Micro-Neighborhood Externalities and Hedonic Housing Prices. *Land Economics*, 56(2), 125-141.

<sup>4</sup> Nelson, A. C., & McClesky, S. J. (1990). Improving the Effects of Elevated Transit Stations on Neighborhoods. *Transportation Research Record* 1266 173-180.

<sup>5</sup> Matthews, J. (2006). *The Effect of Proximity to Commercial Uses on Residential Prices*. Doctoral Dissertation. Atlanta, GA: Georgia State University and the Georgia Institute of Technology.

*arguing that “everybody knows” it is true. Local officials are confronted with difficult choices and little empirical information. These decision problems are exacerbated by the growing chorus for “new urbanism” and mixed use development in growing, low density, single use suburban areas. Does proximity to commercial development adversely affect residential property prices? (Matthews 2006: xiii.)*

Of relevance here (reported as well in Matthews and Turnbull 2007<sup>6</sup>), Matthews studied a mature neighborhood comprised of older homes in Seattle, Washington. He found that “proximity to retail creates both a positive, or convenience, effect and negative, or spillover, price effect for residences; the effects play against one another. On the whole, the positive effect outweighs the negative effect, but up to about 250 feet, the negative effect of disamenities results in a net loss. Beyond a distance of around 250 feet, the effect is positive for almost another 1,000 feet” (Matthews 2006: xv). He further found that as neighborhood land uses become more integrated the positive price effect of proximity increases.

### **Application to the Subject Site**

From the relevant literature, I find:

1. The weight of the research indicates that considering the effect of commercial property on the value of detached residential property there are more positive effects than negatives ones even when residences are very close to commercial activities.
2. Where there are negative effects they dissipate rapidly with respect to distance; the most convincing study shows this distance to be about 250 feet but even at 100 feet those effects are very small. However, as the proposed project is already located in an area of commercial/retail development the actual adverse distance-based value effects will be even smaller even if it does exist.
3. In any event, the aggregate property value effects of commercial near detached residential are positive compared to no commercial nearby.
4. Where nearby detached residential property is in a low income area and itself is of low value, which appears to be the situation at hand, commercial development nearby including in this case being next door to some residential property should have a positive effect providing planning staff recommendations are implemented. Thus, site design enhancing positive interactions and mitigating negative ones between commercial and detached residential land uses will likely eliminate any negative effects and increase positive ones.

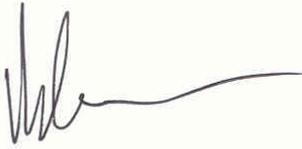
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<sup>6</sup> Matthews, J.W. and G.K. Turnbull. (2007) Neighborhood Street Layout and Property Value: The Interaction of Accessibility and Land Use Mix. *Journal of Real Estate Finance and Economics* 35: 111-141.

**Opinion**

In considering the information provided to me identified and reviewed above combined with relevant urban land economic theory and research, my opinion is that the proposed development for this site including site planning recommendations of planning staff will likely result in higher detached residential property values throughout the vicinity as well as for detached residential units that are closest to the site.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'A. Nelson', is written on a light yellow rectangular background.

Arthur C. Nelson, Ph.D., FAICP