

Mixed-Use Development and Financial Feasibility:

Part II - Physical, Phasing, Design and Public Policy Factors

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Editor's Note: The following article is Part II of "Mixed-Use Development and Financial Feasibility: Economic and Financial Factors," which addresses the physical, phasing, design and public policy factors that affect mixed-use development. Part I, which addressed the financial and economic factors of mixed-use development, was published in the previous issue of Real Estate Issues, Vol. 34, No. 1, 2009.

THE GROWING POPULARITY OF MIXED-USE DEVELOPMENTS is driven by both the developers and regulators. Developers are attracted by potentially higher rates of return from denser development that builds in clientele for on-site uses. Public officials are interested in the potential such developments have to serve as a catalyst for redevelopment and the creative use of in-fill sites. The project can only achieve the objectives of both parties if the combined uses are financially feasible.

In a previous article (*Real Estate Issues*, Vol. 34, No. 1, 2009), the economic and financial factors associated with financial feasibility of mixed-use developments were discussed. In this article, we discuss important physical, phasing, design and public policy factors.

Combining multiple uses on a single site may increase the complexity of the physical requirements for the site and structures. Many mixed-use projects incorporate higher density development, and tenants and customers have different needs and preferences for access and security. These items become critical issues for a project's success. If the project is to serve as a destination for tourists and local residents, the buildings and improvements must go beyond functionality and become an attraction

themselves. The ability of a mixed-use proposal to fulfill these needs can be hampered by regulations that were conceived for single-use projects. While complicated, with a little creativity, a mixed-use project can be designed and developed in compliance with local regulations and perhaps even with the benefit of government incentives.¹

PHYSICAL FEATURES

The physical features of the site and its improvements are key elements of financial feasibility. The site is especially critical for a horizontal mixed-use development on a single parcel of land. The size and shape of the site must be sufficient to allow the placement of the uses on the land in a way that integrates the uses without resulting in overcrowding. While flat acreage is preferred for retail development, other uses can be placed in vertical structures and on slopes, providing views and interconnections with the development on multiple levels. Easy access to the site and parking structures is essential for traffic flow that encourages repeat visits while connecting the development with its surrounding community.

Integrating the project with the neighborhood is essential to winning community approval.² Site design can create points of connection between the mixed-use development and the surrounding areas. The pedestrian flow from the surrounding neighborhood to on-site land uses should be easy.

The design and density of the mixed-use development relative to the surrounding area must be considered to ensure harmonious integration.³ In urban areas, the density of the mixed-use development can be high yet

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still be comparable to that of the surrounding area. In suburban settings, if the density of the mixed-use development is higher than that of the surrounding area, the transition should seem natural.

Some developers claim that, "mixed-use is all about place-making."⁴ The best definition in the literature for place-making is, "...the creation of vibrant, pedestrian-friendly areas with a mix of complementary land uses."⁵ It requires a development in which all the buildings do not look the same, rather they are complementary. The master plan ensures the buildings are integrated with each other and the planned public spaces. The planned public spaces add to the sense of "place" and the success of the commercial tenants in the development. Components such as public gathering areas, walking trails and parks enhance the image of the development and foster the place-making ideology. Even though parks and squares do not pay rent, stores near them have increased sales volumes.⁶ Transitional public spaces that integrate uses can be planned as places with multiple functions. They also can serve as buffer zones between the uses.

The design and location of streets, sidewalks and parks is as significant as the design and location of the buildings.⁷ It is essential not to overlook the importance of the street features in mixed-use developments. Place-making occurs at the street level through choices regarding paving materials, sidewalks, lampposts, seating areas and landscaping. Pedestrian traffic should have safe access to all uses through visually appealing public areas and transportation corridors. The pedestrian orientation requires connectivity⁸ and the ground floor of buildings fronting the street to be designed in a way to provide a sense of activity.⁹ One key to success is the proper incorporation of all components to create a seamless whole.¹⁰ Another key is to provide each use a "front door" that is distinct and separated from the other uses. This is more important to single-family housing than rental housing, but residential users do not want to walk through retail to enter their homes. This may mean the construction of a rear street or private walks.¹¹

While the overall project needs high visibility, not all uses have the same need for visibility. Highly visible and easy-to-read signage will aid with consumer satisfaction.

A successful vertical mixed-use development shares many of the characteristics of a successful horizontal community; however, unlike horizontal communities, vertical mixed-use communities must be concerned with the

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additional challenges that arise when constructing a vertical platform. Physical design, staging/phasing and cost financing issues arise when blending residential, retail and office uses in a single tower.

Often the retail space is 90 feet deep, while residential space is 60 feet deep, and each has differing column spreads for load-bearing walls. Architectural ingenuity can make use of the difference in design such as by designing lofts or apartments over the retail space. Retail commonly has open ceilings, but residential uses must have plumbing pipes that may run above this open area. These pipes must be contained, and retail loses the open-air feel that it is trying to capture unless architecturally innovative design is used. Conflicting requirements must be viewed as a challenge that can create value and atmosphere. For example, a Chicago development used the green roof requirement on commercial buildings to add value to the residential component through a landscaped roof terrace.¹²

Another difficulty is the integration of operations once all the buildings are occupied. Many problems can be anticipated and consequently avoided by utilizing proper and sufficient design techniques. Potential problems include noise complaints from residents about commercial uses, conflicts over automobile traffic and parking, and residential complaints about odor and trash. Separating uses and incorporating soundproofing between the commercial and residential components is critical to avoid noise problems created by commercial activity. Providing upfront disclosure or having separate residential parking would go a long way in mitigating potential parking conflicts. Loading and trash collection areas should be hidden from residents. Incorporating proper ventilation systems is imperative because residential users will not tolerate odors and smoke from adjacent restaurants. Fire retardation measures can be incorporated through construction techniques.¹³ Finally, the site may need to contain transition areas that separate uses with landscaping, screening, buffer zones and setbacks.

One of the biggest issues associated with the design of a mixed-use development is parking. "The benefit of mixed-use is that collectively, you can reduce the total amount of parking ...also, since parking demand peaks at different times during the day for different uses, shared parking is important because it [parking] is a very expensive item in the total construction costs."¹⁴ However, most tenants want the standard parking ratios: retailers want five spaces of

free, open access parking per 1,000 square feet of gross leasable area; and office users want four to five spaces per 1,000 square feet of rentable area. Residential users want dedicated spaces separated and secured from the commercial parking areas, with their entrance and exit separated from the commercial entrances and exits.¹⁵ They want dedicated space for their dwelling unit that is open for their exclusive use at all times.

PHASING AND TIMING ISSUES

The mixed-use development has phasing and timing issues that go beyond those typically experienced in single-use development. The first phase of the project sets the theme, tone and quality level for the whole project. The first phase and each subsequent phase must be designed to survive on its own if subsequent phases are not built. However, the developer must recognize that sales and leasing may be slow in the initial buildings if the promised supporting uses in the development are not completed and occupied. Thus, critical mass must be created during the initial phase.

The faster the build-out period and the shorter the lease-up period, the greater the prospect of achieving financial feasibility objectives. Timing of the development phases is essential to controlling cost and enabling the move-in of rent-paying tenants as soon as possible. However, if integrated systems or shared structures such as parking garages are part of the approved development plan, certificates of occupancy may not be granted until the entire project is completed.

To respond to changing market demand and control project costs, the physical size of each phase need not be the same. Also, the length of time between phases need not be the same. The financial feasibility of each phase may not be the same as earlier phase(s). It could be better, or it could be worse.

PUBLIC ISSUES

Most development regulations are written to govern single-use projects. Mixed-use developments often require exceptions to zoning regulations and adaptations of building codes. Some communities encourage innovative development and design, allowing for deviation from standard regulations, while others maintain ordinances that do not readily accommodate mixed-use development. Cities that embrace mixed-use development as an anchor for urban redevelopment may even act as a partner, providing financial assistance to the development.

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Mixed-use developments are made possible in large part by the condominium form of ownership, which enables developers to overcome potential obstacles in zoning or building codes. Local planning officials often allow developments under a condominium structure that would not be permitted under separate forms of ownership. Setback, parking and density requirements may limit the developer's ability to subdivide into separate ownerships for each use; the condominium form of ownership enables the development to fulfill requirements as a whole. Similarly, building code requirements may be less stringent under the condominium form of ownership with a single tract of land compared with subdividing the land into separate tracts.¹⁶ The condominium form of ownership complicates the rights and responsibilities of the property owners, requiring the formation of a property owners' association and adoption of covenants, codes and restrictions.¹⁷

If the development requires higher density than in the surrounding area, the developer must be able to persuasively explain how the project will positively influence the community, highlighting transportation and infrastructure use (water, waste treatment, school capacity) and the economic benefits of the mixed-use development (substantiated through economic and fiscal impact studies). In some cases, the developer may be able to arrange transfer of development rights from another site to increase the project's density.¹⁸

Most zoning ordinances are written to allow a single use on a single site. Mixed-use developments, meanwhile, require approval of multiple uses on a single integrated site.¹⁹ This can be accommodated through either fixed zoning districts that allow a range of uses or a discretionary approach that requires project approval through a zoning overlay district, planned unit development or conditional use permit.²⁰ The key is to garner support from regulatory officials as well as community residents.

The financial feasibility of mixed-use projects is enhanced in some communities through government assistance with land assembly, tax increment financing, property tax abatements, and historic rehabilitation tax credits.²¹ City governments are providing cash in some situations, such as the renovation of an art deco building into a residential, retail and parking structure in Dallas.²² Federal historic tax credits are a boon to local developers, either through creating savings on income tax bills or through selling to banks and utility companies

for equity partnerships.²³ Residential units are constructed above retail spaces in older historic properties in Baltimore, Miami and Durham, North Carolina. Buildings in the National Register of Historic Places may not be razed from existing sites for redevelopment, but state and local historic structures can be removed and/or renovated. One key issue is incorporating the historic elements of the neighborhood into the design to keep the "feel" of the neighborhood. Conversely, a challenge is including the modernization without losing the style and history. This can be overcome with proper planning and design.

If properly designed and positioned, the mixed-use development can be a catalyst to redevelop a blighted area. The mixed-use development can be a generative activity for the area and thereby increase the future level of demand for both on-site and off-site properties. It could be a "town center" for a suburban community, attracting consumers from among residents in surrounding neighborhoods, and giving the area a community focal and gathering point.

A mixed-use development can be located at a transit station to serve as both a community and transportation hub for a suburb. From a public policy perspective, increasing the number of housing options available near transit stations does more to increase ridership on the transport system than any other factor.²⁴ Transit stations have become extremely popular as the central point for both new mixed-use and single-use developments. The transit station enables easy access for customers and workers whose origin and destination are not in close proximity.

CONCLUSION

With the growing interest in mixed-use development, careful thought must be given to how to analyze financial feasibility and the strengths and weaknesses of these projects relative to traditional single-use development. The potential exists for mixed-use to create additional value and outperform single-use real estate developments through the synergy and appeal of a compact neighborhood that serves the residents' and tenants' needs while providing an attractive destination for community residents and visitors. However, developers and operators must consider the substantial obstacles that must be overcome through design, financing and operation to create a harmonious, integrated whole that achieves the investors' and community's objectives rather than a group of disparate, conflicting uses.

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Experiences of mixed-use developers can be used as a starting point for identifying the key elements that have led to the success or failure of individual projects. Experience shows that the mixed-use concept can be effectively implemented in both urban and suburban locations containing a variety of different complementary uses. The design (height, density), location (near transit centers or major roadways), and mix of uses (residential, retail, office or hotel) must be tailored to fit the local market. Sufficient demand must exist for all the components of the project. The uses must attract from the surrounding community; the on-site residents will not be sufficient to ensure financial success. The site must be integrated into the local community to provide easy access and visual harmony. This helps the project gain the necessary support from the community and regulatory officials.

Identifying and understanding these physical and public policy factors, in combination with the economic and financial factors discussed in the previous article, is essential to critically evaluating the financial feasibility of mixed-use development. Further research is needed to quantitatively analyze the results of mixed-use projects containing a range of uses in a variety of locations so that we can identify which features are critical to a project's success and what combination of factors is likely to create a financially successful mixed-use development. ■

ENDNOTES

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