

# TOD/Mixed-use Strategies: The Developer's Risk



Marilee Utter, CRE  
Citiventure Associates

November 2006

# Prime Real Estate Markets

Priority investments:

- 24 hour cities
- mixed-use
- access to transit

(Price Waterhouse  
Coopers, *Emerging  
Trends in Real  
Estate 2003*)



# The Case for Mixed Use



- Highest land values
- Strong consumer demand
- Most efficient use of land
- Long term economic sustainability for City
- Strengthens civic identity
- Opportunity for new housing types
- No-drive option

But developers are wary....



# Gap between Demand and Supply



- 30+% of housing demand for denser, walkable, mixed-use communities
- <2% of new housing starts in this category

# The Balance is Shifting...

Many cities want mixed-use projects—qualified developers are scarce and have become very selective



# The Problem with Mixed-Use



- More complex and expensive to design, entitle, finance, build, lease, operate
- Particularly difficult in smaller/low income markets: costs are the same, rents are lower
- Short term, doesn't deliver institutional yields of 11-15% cash on cash



# Why Yields Are Low:

- Too many amenities required of the project
- Too much upfront money required of the developer
- Predevelopment takes too long





# Amenities

- Placemaking is expensive
- Communities have a hard time prioritizing amenities
- Public sector doesn't understand the numbers, and the developer's fair share



# Front Loaded Costs



- Placemaking/ infrastructure elements hard to phase
- Parking structures major expense
- Lenders often require more equity

# Timing

- Predevelopment 2-3 years

concept, zoning, financing

- Development 2-3 years

design, construction

- Stabilization 1 year

occupancy, lease-up

Investor Requirement 5-7 years

# A Developer's Successful Mixed-Use Project

- Clear community vision for use
- Land assembled
- Predictable process
- Public investment for the regional amenities
- Knowledgeable, sophisticated public partners
- Reasonable profit in 3-5 years





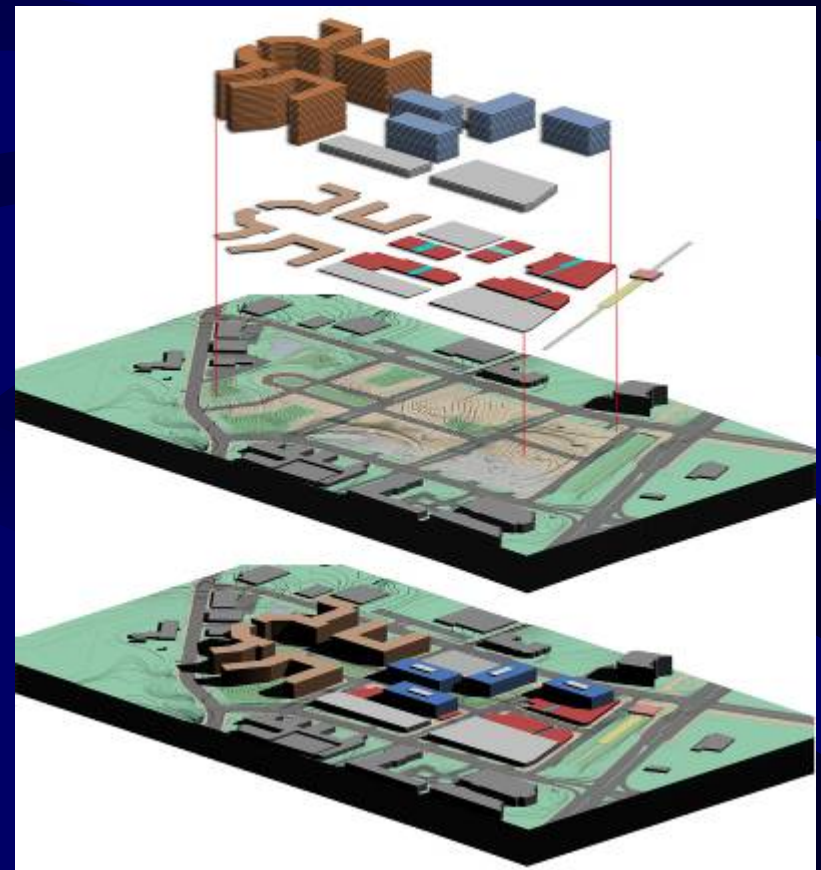
# Common Public Sector Mistakes

- Not setting a strong vision
- Not helping with land assembly
- Not investing in infrastructure
- Requiring retail on every street
- Requiring all vertical mixed-use



# Common Public Sector Mistakes

- Capping density
- Requiring too much parking
- Investing in the wrong developer
- Changing the process
- Not hiring development expertise
- Not advocating for the project



# What Cities Can Do



- Have a clear vision
- Know your market
- Help with the land
- Do the hard work with the community *first*
- Have a predictable process
- Have sophisticated development skills
- Be willing to invest
- Pick the right developer

# What Developers Can Do

- Budget 5-7 years
- Pick a good market
- Get the land
- Buy enough equity
- Respect the City plan
- Find a public sector champion
- Pay for a public sector negotiator if necessary
- Use a likeable, trustworthy representative





# LET'S GO !!



Marilee Utter, CRE

[Citiventurellc@msn.com](mailto:Citiventurellc@msn.com)

303-534-6620