TOD/Mixed-use Strategies: The Developer’s Risk

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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 !!

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