The INSTITUTE for Public Policy & Economic Development

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Mixed Use Development

Definition

Mixed use development is the use of a building or set of buildings for more than one purpose. Instead of single use development that can only serve one purpose, mixed use development can combine commercial, industrial, and residential uses on one property. This type of development has become more plausible as most industry has moved out of cities. Commerce has become cleaner and the need for separation between these and residential areas has lessened.

Description/Summary

Mixed use areas can bring a number of benefits. They have the potential to become a town center and truly revitalize part of a city. Mixed use buildings are also more sustainable and efficient structures. Because mixed used buildings combine several uses, consumers may save time and travel expenses by satisfying multiple needs in a single location. Building tenants also benefit from reduced costs due to shared utilities and more customers due to increased walking traffic.

However, it can be difficult to attract developers to mixed use zoning projects because of higher development costs attributable to many factors. Planning costs are higher because of the complexity of a structure that incorporates many uses. Builders may also need multiple approvals from local authorities for each use. Also, land that is suited for mixed use is typically sold at a higher price than single use land.[1] Hence, such development has the greatest impact when it includes a residential component.

Mixed buildings are usually constructed in urban areas where transportation is easily accessible; this is ideal, as it makes the property most efficient. Benefits of high density

[1] RABIANSKI, P. D. (n.d.). Retrieved from http://www.cre.org/memberdata/pdfs/Mixed-Use_Development.pdf

development include, "reductions in energy use, greenhouse gas emissions, and traffic congestion that flow from lower car usage".[2] By increasing density, municipalities can save on infrastructure costs; this is because mixed buildings attract more of the population into the city where utility infrastructure and resources already exist. Mixed use development can also attract residents to the places where resources can be used most easily. This can aid municipalities that are concerned with sustainability.

Cities are also attracted to the idea of mixed zoning from a fiscal perspective. Higher density not only means that utilities are being used efficiently, it can also ensure an optimal level of tax revenue from land use. Since multiple services are occupying one space, tax revenue can be raised from many sources on one property.

> *Joseph Minicozzi of Urban3, LLC gave examples from his research in Asheville, North Carolina, where his firm compared the property tax generated by a Super Wal-Mart on the edge of the city with a typical acre of mixed-use development in Asheville's downtown district. The Wal-Mart consumed 34.0 acres and generated property taxes of $47,500 per acre, while the mixed-use development consumed only 0.2 acres and generated $634,000 in property taxes per acre. A sample set of 15 cities from Montana to Florida provided similar results, underlining the economic potential of creating mixed-use developments on Main Streets, vibrant neighborhood hubs, or central business districts in communities across the nation.*[3]

Thus, mixed use zoning makes sense from a fiscal standpoint as well as a sustainability and efficiency perspective.

One of the biggest challenges for mixed use development is parking. A mixed use building that serves many purposes is likely to attract many people living working, and visiting it daily. Thus, supplying sufficient parking is an important part of planning for a mixed use building. A downfall of constructing parking facilities is the cost, which can be discouraging to many investors. Zoning code requirements can also make development difficult.

The Smart Growth Leadership Institute examined a California case study and came up with a few recommendations. First, it recommended cities conduct financial feasibility analyses to determine whether the project will make economic sense for developers. It also stressed a marketing plan and fee waivers to attract high-quality developers to the property. The Smart Growth Leadership Institute further encouraged cities to consider financial assistance for

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[2] "Affordable, compact and well-located housing is critical to achieving the nation's transportation policy objectives." *National Housing Conference*. Center for Housing POlicy, n.d.

[3] "Mixed-Use Development Makes More Cents for Cities : Center for Neighborhood Technology. "Sustainable Communities Attainable Result, 17 May 2012. Web. 19 Apr. 2013.

affordable housing for the workforce.[4] Moreover, it advised cities to have predetermined and strict requirements for developers to meet so that authorities do not have to review each case individually. The study predicts that this will result in an easier process for both developers and the municipality. However, as discussed earlier, planning and permit costs are already high for developers. Thus, the creation of strict standards is something that should be carefully considered by the municipality and it should ensure that those standards are not overwhelming for developers who are already facing challenges.

Strategies/How to

When planning a mixed use project, it is essential to pick a team that has experience with these types of developments. The team should be a group of people that first gather information from a variety of sources, such as, leasing agents, property managers, market experts, financial analysts, capital providers, marketing consultants, major tenants, development partners, construction contractors, public officials, and surrounding community members.[5] It is also very important that both financial and non-financial goals are clearly identified from the initiation of the project so the team has guidelines and a structure to follow. It is equally important that the team conducts a market analysis of the project since different geographies and market areas vary. Likewise, each use must be analyzed with regard to its own supply and demand situation and should be able to attract sufficient market demand to make it financially possible in its own right.[6] Furthermore, the developer should consider the potential market synergies from on-site support. The first type of market synergy is derived from direct on-site market support; this would include residents, office workers, and hotel guests frequenting the retail and restaurant components of the project. The second type of synergy involves the indirect benefits that the users provide to each other as amenities. Finally, the third kind of synergy is the impact the new development will have on the place as a result of the new destination within the urban landscape.[7]

Additionally, a successful strategy often requires several alternative programs to be developed before the best fit is found. This is so because the program must be marketable, feasible, and finance-able, and must also be able to receive public approval.[8] Public approval is

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[4] Fulton, William and Jessica Daniels. "CASE STUDIES IN SMART GROWTH IMPLEMENTATION: Davis, California." 2008.

[5] Herndon, Joshua D. "Mixed-Use Development in Theory and Practice:Learning from Atlanta's Mixed Experiences." 2011. https://smartech.gatech.edu/xmlui/bitstream/handle/1853/40790/JoshuaHerndon_Mixed-Use%20Development%20in%20Theory%20and%20Practice.pdf

[6] Ibid

[7] Ibid

[8] Ibid

very important because it may affect the final project. The development strategy also must measure the phasing and timing of each component of the project because, as the saying goes, "time is money." This requires a thorough understanding of the market for each use and also a solid familiarity with the construction process and local building regulations. Again, that is why it is necessary to get additional input from different sources. Project phasing also requires close coordination with architects and engineers, as the building design often affects the ability to phase the delivery of project components.[9] While it is impossible to predict exactly how much costs and revenues will vary on any given project, it is better to acknowledge and take into consideration that there exists a greater likelihood of economic miscalculations; hence, incorporating larger contingency funds into the budget is often vital to a mixed-use project's financial success.[10]

As previously mentioned, parking is a crucial component of mix-use developments. Estimating total demand for parking is much more complex for mixed-use projects, given the different activity cycles for each use. However, shared parking is often an option that can be financially and logistically appealing, if designed properly. Additionally, a pedestrian network is necessary for a well-designed central open space. Whether it is a main street, central plaza, or some other type of public space, it is important to establish clear streets, paths, and open spaces that branch out from the central open space to create visual interest and draw people into the different areas of the development.[11] It is also very important to take into consideration the different uses of the mix-use development and how the closeness between uses will impact the other when devising the project. Depending on the project's different uses, considerations may include a noise abatement to provide sound proofing between uses, separate residential and commercial parking areas, screen loading and dock areas, implement odor suppression and ventilation for restaurants, and separate access for residential and office users from retail customers for both security and privacy reasons.[12]

Case Studies

An example of successful mixed use development project is Belmar, situated on the 104-acre redeveloped site of a once-thriving enclosed mall several miles west of downtown Denver, Co. It has been billed as the first "real" downtown for a large Denver suburb. Belmar offers streets lined by three- and four-story buildings with street-level storefronts, creating a pedestrian-friendly environment. Belmar's first phase opened in May 2004 with five city blocks containing 53 storefronts in 650,000 square feet of retail space and 184,000 square feet of

[9] Ibid
[10] Ibid
[11] Ibid
[12] Ibid

offices over shops, 10 acres of parks and open space, 416 apartments, 12 loft condominiums, 75 condominiums, and 132 townhouses. The project also includes a sixteen-screen Century Theatres cinema, an 87,000-square-foot Dick's Sporting Goods store, a farmers' market, and a 58,000-square-foot Whole Foods.[13] The Colorado Coalition, a collaborative redevelopment effort between the state and seven local governments, received $5.1 million in a Revolving Loan Fund (RLF) grant from EPA's Brownfields Program. The Coalition uses this RLF funding to make low-interest loans for local Brownfields cleanup activities. In 2002, the coalition issued a $1.95 million loan to Continuum Partners, a private developer, for the cleanup and redevelopment of the mall site. The developer demolished the mall, removed soil and treated ground water contaminated with PCE before developing the site. [14] Several additional phases are planned, with build-out scheduled for 2013 or 2014. Both residential units and office space have been commanding rents higher than the regional average and both have been a financial success.[15] This is a perfect example of how a mixed use project can also be considered a Brownfield cleanup project.

Sample Policies or Legislation

Three zone districts are specifically tailored to mixed use development in the city of Colorado Springs, including the Mixed Use Neighborhood Center (MU-NC), the Mixed Use Commercial Center (MU-CC), and the Mixed Use Regional/Employment Center (MU-R/EC). For purposes of this paper, we will focus on the Mixed Use Commercial Center. Below is the regulation established for mixed use development.

This district is intended to accommodate development of commercial centers as described in § 7.2.201 of the Zoning Code. Generally, the location of MU-CC zone districts should balance automobile access from arterial and collector streets with transit orientation and pedestrian and bicycle access and circulation, and provide good vehicle and pedestrian connectivity to surrounding residential areas. For the purposes of applying the MU development standards in chapter 7, articles 3 and 4 of the Zoning Code, the City hereby establishes two (2) contextual areas within the City: (1) the "Older/Established" Contextual Area- area of the City established prior to 1985, and (2) the "Newer/Developing" Contextual Area- area of the City established after to 1985.[16]

The city then provided guidelines and limits for Mixed Use projects, which included the following:

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[13] "RE-Powering America's Land:Siting Renewable Energy on Potentially Contaminated Land and Mine Sites." 2009.http://www.epa.gov/renewableenergyland/docs/success_belmar_co.pdf
[14] Ibid
[15] Ibid
[16] *Colorado Springs Mixed Use Development Design Manual* . Colorado Springs, n.d.http://www.springsgov.com/Files/MixedUse.pdf

A. **MINIMUM DISTRICT-WIDE AVERAGE FLOOR AREA RATIO (FAR)**: FAR is calculated as an average across the entire zone district and based on the gross land area in the district measured from adjacent street center lines.

• **Applied to Vertical Mixed Use Buildings** - Total gross floor area devoted to non-residential uses in a vertical mixed use building will be included in the calculation of minimum FAR.

• **Administrative Relief** – May be granted for up to a 12% reduction or a minimum of .22 FAR based on physical site constraints of topography, drainage, and the preservation of significant natural features.[17]

B. **MINIMUM RESIDENTIAL DENSITY**: Residential density shall be measured as an average over the gross land area of only the residential portion of the planned site or zone district. The exemption would be subject to the mix of use requirements in §7.3.702 when residential uses in a mixed-use center are all contained in vertical mixed-use buildings, the development shall be exempt from this minimum residential density requirement. The development projects can receive credit for minimum Residential Density in Vertical Mixed-Use Buildings when an activity center contains land area devoted to residential uses in single-purpose buildings.

C. **Maximum Height**: The maximum building height shall not exceed 125% of the average height of buildings located on the same block or five feet more than the existing height(s) of the immediately adjacent building or buildings. Except in the MU-NC district, requests for additional height shall be subject to the standards and criteria in HR-High Rise Overlay Zone (§7.3.503). To provide a sensitive transition between land uses of different intensities, any portion of a building within a mixed-use zone district located within 100 feet of a single-family or two-family dwelling shall not exceed 40 feet in height. However, additional height may be allowed when a parking structure is integrated into the design of a building housing a principal use, as stated in §7.4.208.

To encourage pedestrian-friendly streets by bringing buildings close to pedestrian sidewalks and ways, the city encourages principal nonresidential buildings to be built to the back edge of the public sidewalk, except as necessary to allow room for outdoor seating and service areas, outdoor sales and displays, landscaping, emphasized entryways integral to the building design, and similar pedestrian and customer amenities,[18]

Definition of Frequently Used Terms

Mixed-Use - A contributing use, when combined with other uses, which satisfy the day-to-day needs and functions of a walk able neighborhood or community. A mixed use building may be a live/work unit or separate-use structure situated in a predominantly residential area.

[17] Ibid

[18] Ibid

Zoning - Any continuous area that differs in some respect, or is distinguished for some purpose, such as housing or shopping center projects, from adjoining tracts or areas.

Tax Abatement: When a taxing board grants a taxpayer a stay of paying a tax for a short or long term, for a total or percentage of the tax. Tax abatements are given for any reason, like for the construction of a new building to increase employment or a company having financial problems.

Synergy in Marketing: When two marketing initiatives create a response greater than the sum of the combined response the two would have elicited alone. For small businesses, which often lack the funds for an aggressive marketing budget, the key to achieving marketing synergy is in multiple, low-cost initiatives.[19]

Resources

Financing any real estate project begins with equity, and equity originates from a developer's own capital. Since most developers can't single-handedly meet equity requirements, or because they wouldn't want that much of their own money at risk, the remainder of the capital often comes from equity partners. These investors tend to include developers and private property companies, wealthy individuals and limited partnerships, pension funds, investment advisory firms using pension fund money, insurance companies, Real Estate Investment Trusts (REITs), opportunity funds, investment banks, commercial banks and other private investment entities. For example, there are also loans offered by many organizations, such as the Opportunity Resource Fund; under this program, eligible projects include those that combine affordable housing with qualifying commercial real estate development. Generally, the Opportunity Resource Fund makes short-term loans of six years or less, although longer terms would be considered for low income housing tax credit projects. Interest rates vary from 6 to 9 percent.[20]

Many of these financing tools, however, require that projects be located in special districts created by the local municipality, such as improvement districts or reinvestment zones, and usually require that certain criteria are met (Rabianski, 2009). Furthermore, tax abatement programs, development bonds, and bonds from tax increment financing (TIF), known as tax allocation districts (TAD), may be available for the construction of certain types of facilities and infrastructure. For example, Oregon's Vertical Housing Program allows all projects meeting state regulations to receive the property tax abatement on the improvement value for a ten-

[19] "Definition of Synergy in Marketing." Small Business. Hearst Communications, Inc, n.d. Web. 19 Apr. 2013. http://smallbusiness.chron.com/definition-synergy-marketing-21786.html

[20] "Mixed Use Loans." Opportunity Resource Fund, n.d. Web. 19 Apr. 2013.http://oppfund.org/lending/mixed-use-loans/

year-period. The number of floors constructed or rehabilitated for residential use in proportion to the total square footage of a project determines the tax exemption rate the developer receives. The rate of the abatement ranges from 20 to 80 percent.[21] Other funds, such as the Transit-Oriented Development Tax Exemption, encourage the construction of transit-supportive, multiple-unit housing in urban centers in order to improve the balance between the residential and commercial nature of those areas. Such funds seek to ensure full-time use of urban centers as places where residents have an opportunity to live and work.[22]

[21] "Financial Community Investment tools Incentives." 2007.http://library.oregonmetro.gov/files/financial_incentives_toolkit_final.pdf

[22] Ibid