MIXED-USE CONSIDERATIONS FOR HOUSING

INTRODUCTION

When affordable housing (units that sell or rent for below market rates) is part of mixed-use projects, key aspects deserve attention. The housing units have economics that are skewed from pure market forces, so the other uses must perform as well as possible economically to enhance the combined project's overall success. The hard costs of market rate and subsidized units are not that different when compared to their respective rents/sales prices, so leasing or selling units imposes less risk than for the other uses, such as office and retail that must achieve market rates of return. It is important to understand these fundamentally different development risks to combine uses successfully.

In today's economy, *more than ever*, any project must provide peak economic return to lenders and investors. The developer's hard work early on is rewarded by avoidance of long-impacting, costly errors. This is even more important with multiple uses where each has varying, complex criteria. In such cases, more work is required to combine each part into one whole without compromise.

Of course, with subsidized housing, the important goal of affordability for residents is quite different from "getting top dollar" for other types of housing or commercial developments. In a mixed-use project every part should thrive responsive to its unique goals to avoid an adverse effect on other components. Following, some key issues are discussed:

1. Sometimes, Bigger *IS* Better

Sizing project components correctly is important. They should be sized for efficiency and optimal market absorption rather than being added without adequate study, solely for zoning purposes, or to fill leftover site areas. Basing such decisions on market reality ensures that housing units, office or retail space that would be viable on a stand-alone basis will not perform poorly in the mixed-use context or restrain benefits created by the mix. Benefits include better parking efficiency, delivery access, construction costs, management efficiencies, views and security. Similarly, marketing considerations and project delivery (timing) differ for each component. All considered these varying criteria are more effectively resolved for large projects than small projects.

2: Retail where it belongs

The desire to have energized sidewalks often motivates cities to require retail on the ground floors of residential projects. Before doing so, the developer must verify the presence of adequate customers needed for retailers to be successful, particularly for certain merchandise categories, such as apparel. Without those customers, the desired stores don't succeed or even open; the vacancies or weak businesses then provide the very opposite of the desired, positive sidewalk effect. The negative consequences usually extend to the entire (housing) project. Today, demand for retail space is in decline due to the economy and online sales. Once again, there is no substitute for strategic planning to achieve vibrant results not only for our sidewalks but our housing communities as well.

3: A lot of customers are required for viable street-level retail businesses.

Retail businesses require adequate nearby population, demographics, access and sustained pedestrian activity among many well-established criteria, to achieve required store sales volumes. While residential units located above retail stores may add some customers, they do not by themselves provide enough customers for most retail categories. This is counter to common perception. Again, appropriate research and adjustment of expectations are required for success.

4: Incentivizing Housing Development

Closely related to siting and size, the success of other uses in mixed-use developments is needed to *incentivize* new housing production, creating a positive effect on housing affordability (supply and demand). The alternative scenario, in which any portion of the project performs poorly, reduces investor interest and becomes a disincentive to housing unit production. In addition to the many creative types of affordable-housing finance, advocates need to focus on the quality of other components within the same, mixed-use project so that no additional development hurdles are created. Better communications within our communities will help. Combining complementary uses that make commercial sense with housing should be encouraged, incentivizing the right kinds of development.

Looking Ahead

Developers bringing housing units to the market are like people in many types of businesses, facing new challenges and complications while also needing even more thorough and excellent research behind their investments. Those who continue to incorporate the important fundamentals of excellent housing while also embracing newer development formats and the additional requirements imposed when other uses are included will fare the best.

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