

# Economics of Mixed-Use

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ULI Triangle District | June 7, 2012





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- ▶ Community Development
- ▶ Economic Development
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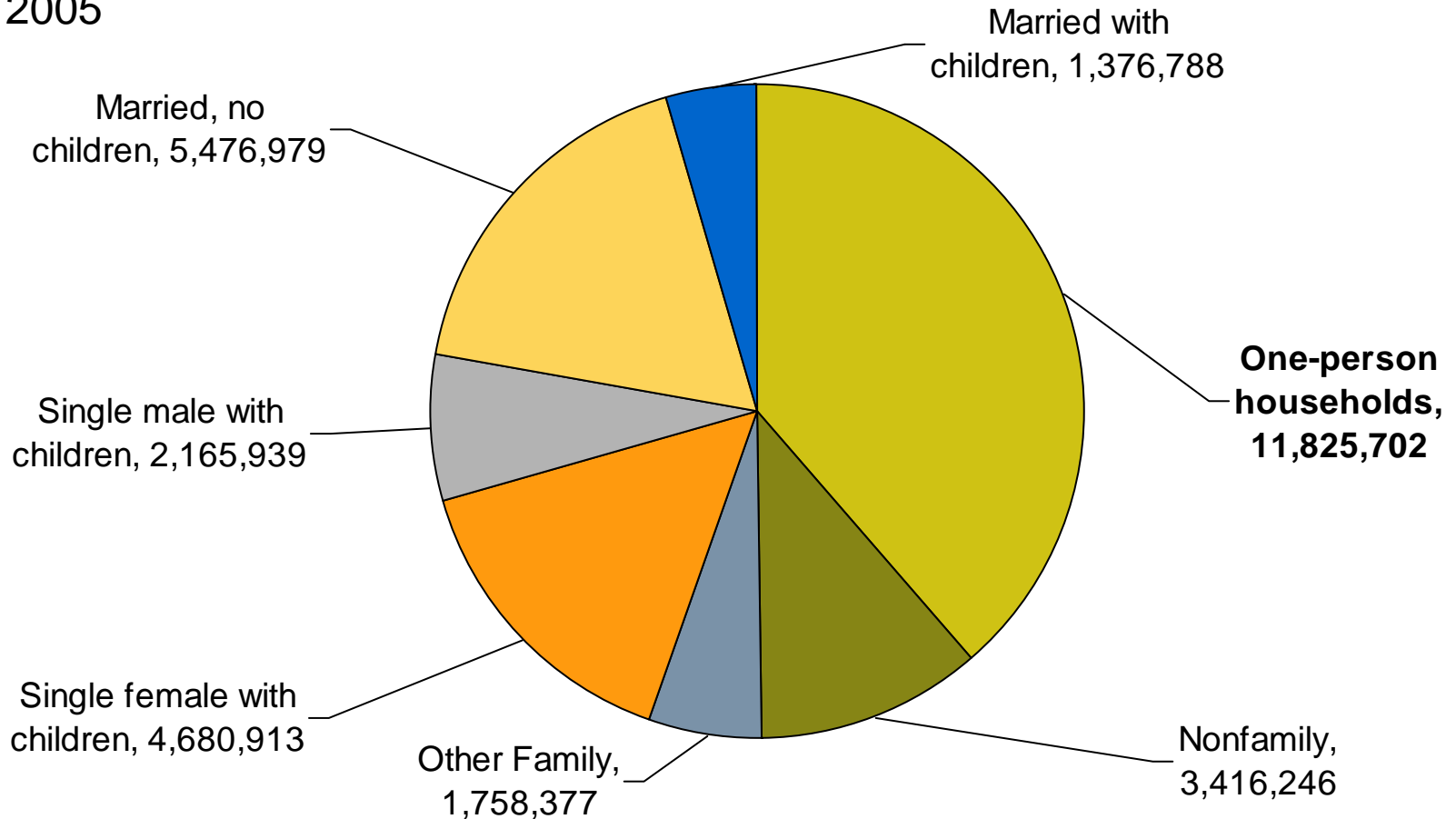
**RCLCO** is a land use economics firm delivering **real estate strategies, market intelligence, and implementation assistance**



## Market Trends

# > 85% GROWTH IN HOUSEHOLDS WITHOUT CHILDREN DIFFERENT HOUSEHOLD LANDSCAPE BY 2025

## Absolute Change in Households, United States 1980 – 2005



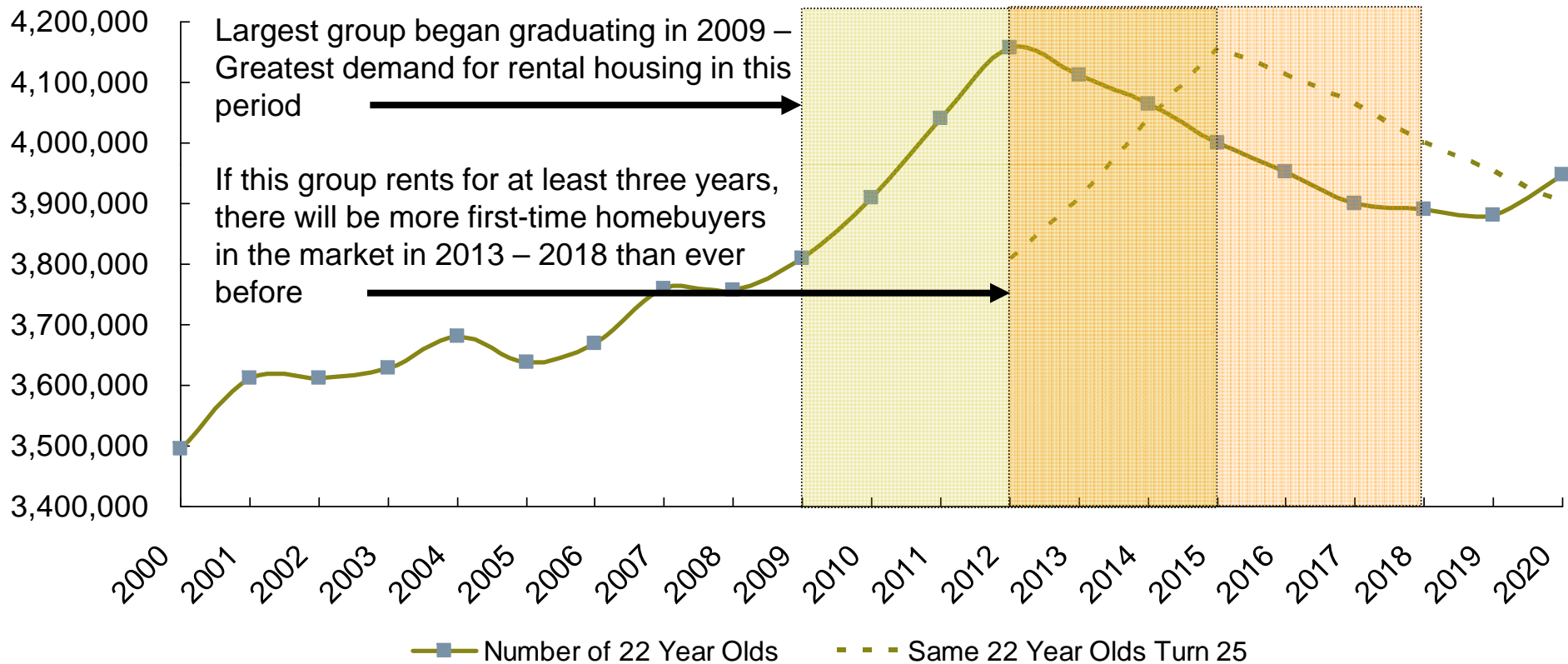
SOURCE: U.S. Census

# GEN Y MAKING ITS MARK TODAY

## SHAPING POST-RECESSION PLACEMAKING EFFORTS

### RCLCO Consumer Research shows:

- ▶ 41% of Generation Y plan to rent for at least three years
- ▶ 77% of Generation Y plan to live in an Urban Core



NOTE: Number of 22-year olds is based upon birth rate and does not factor in death rates and migration.

SOURCE: U.S. Centers for Disease Control and Prevention

# GEN Y WILL PAY FOR WALKABLE, MIXED-USE CHALLENGE IS PROVIDING PRODUCT THEY CAN AFFORD



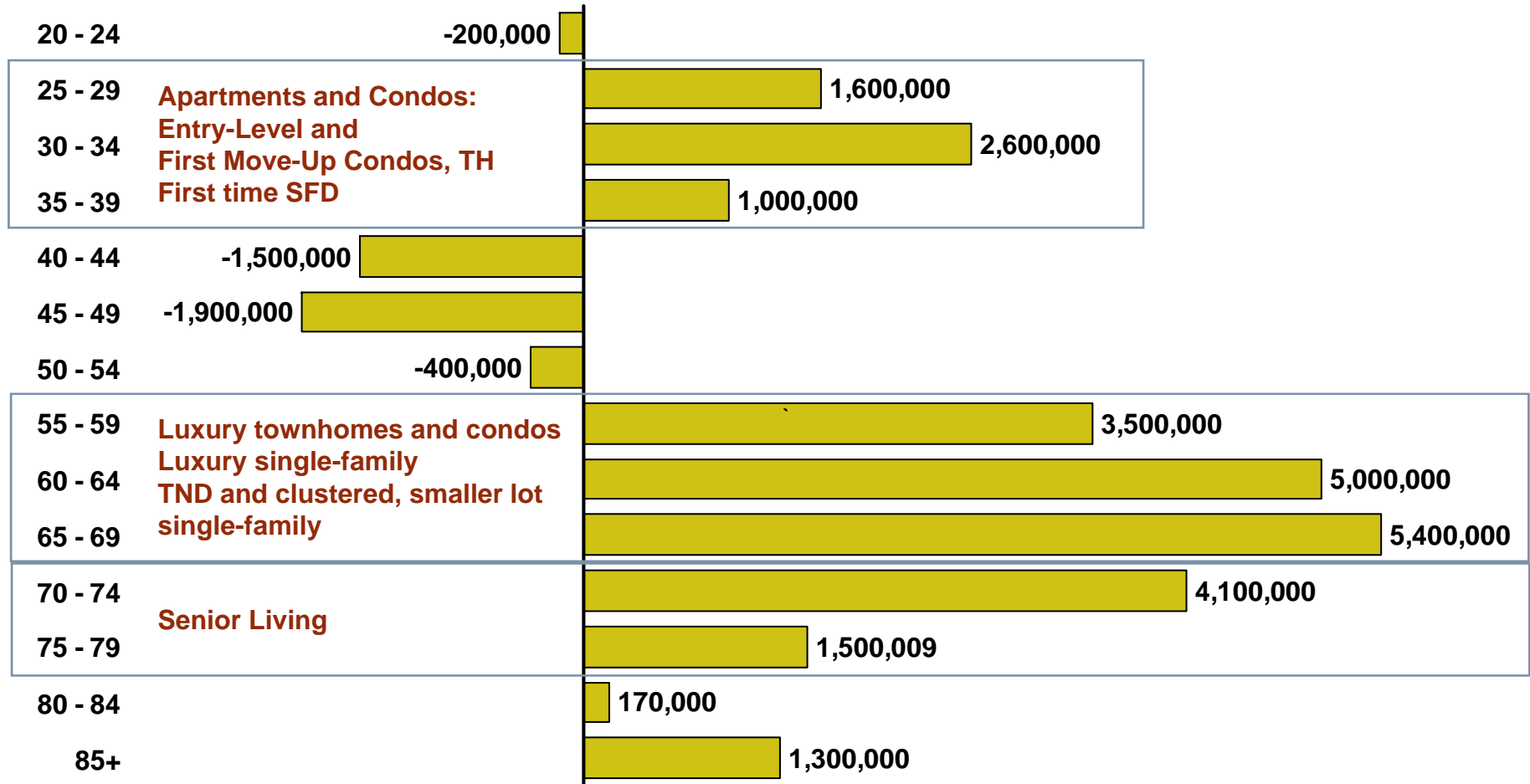
- ▶ Driven by convenience, connectivity, and a healthy work-life balance to maintain relationships
- ▶ **1/3 will pay more** to walk to shops, work, and entertainment
- ▶ 2/3 say that living in a walkable community is important
- ▶ More than 1/2 of Gen Y would trade lot size for proximity to shopping or to work
- ▶ Even among families with children, one-third or more are willing to trade lot size and “ideal” homes for walkable, diverse communities

SOURCE: RCLCO Consumer Research

# DEMOGRAPHIC SHIFTS AND HOUSING DEMAND

## BUILT-IN DEMAND FOR HIGHER-DENSITY LIVING

### Projected Total Population Growth Rate by Age 2010 – 2020

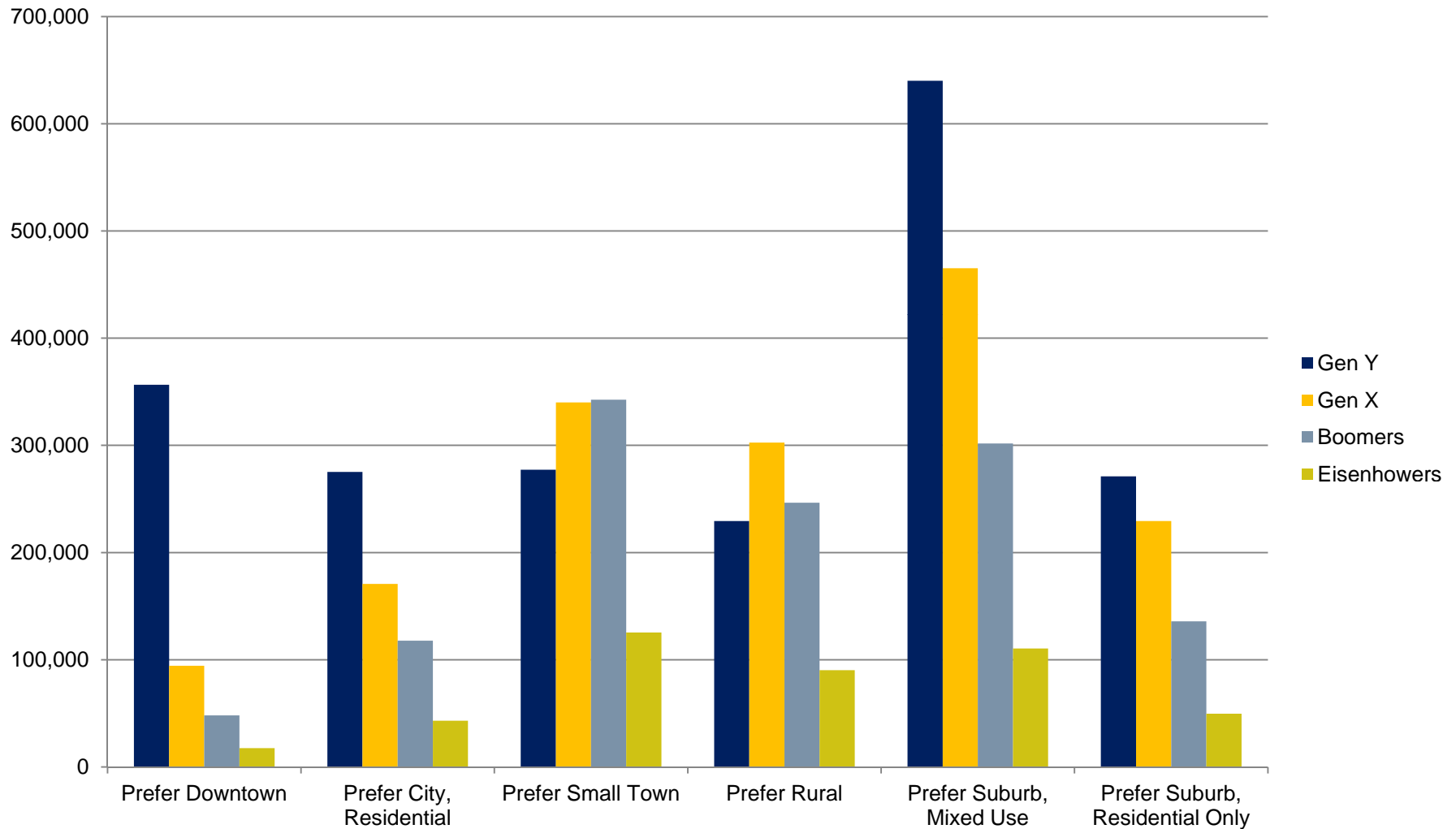


SOURCE: U.S. Census Bureau



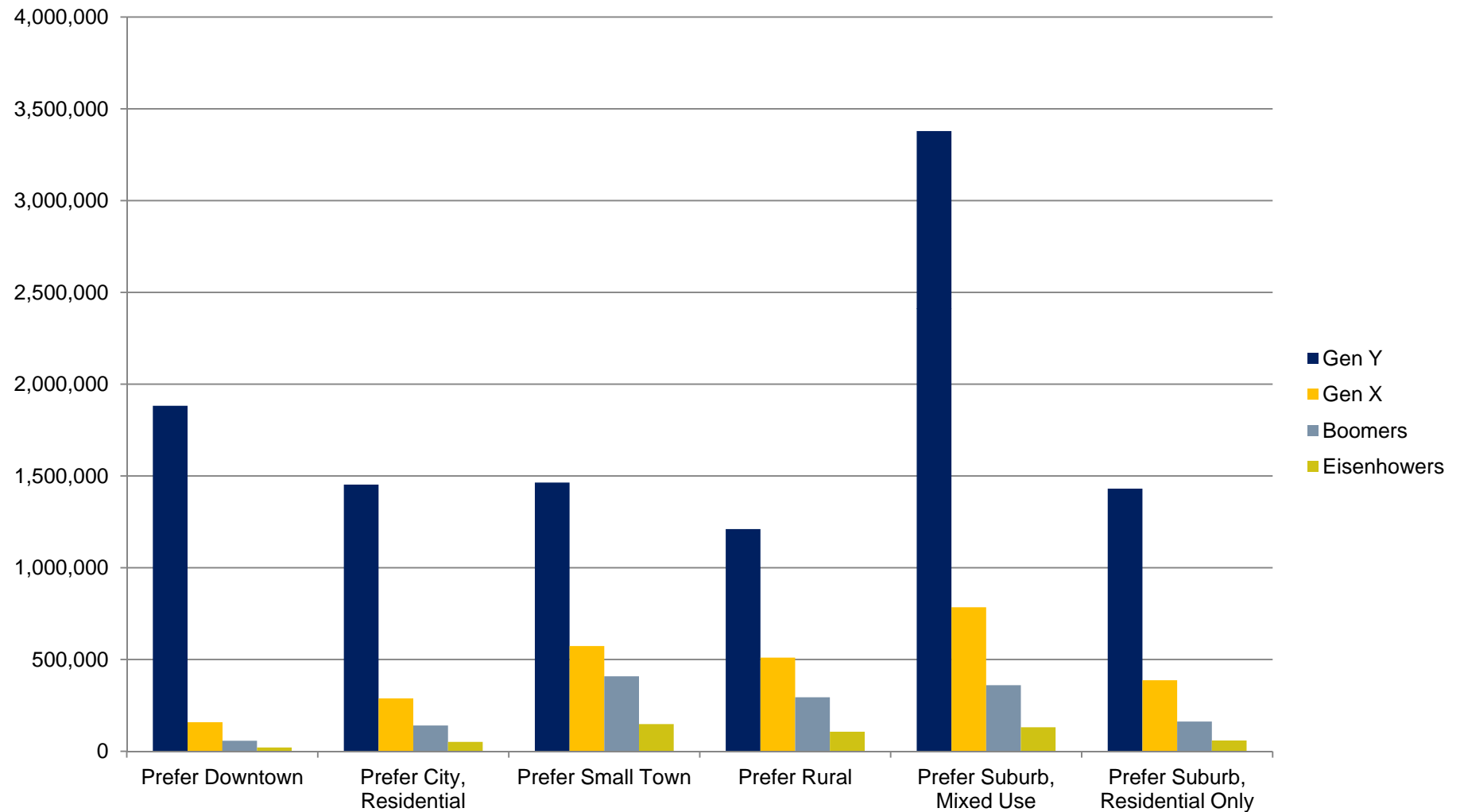
# HOW BIG IS THE MARKET FOR "SMART GROWTH"?

## ALMOST HALF OF THE ANNUAL MARKET WANTS TO WALK

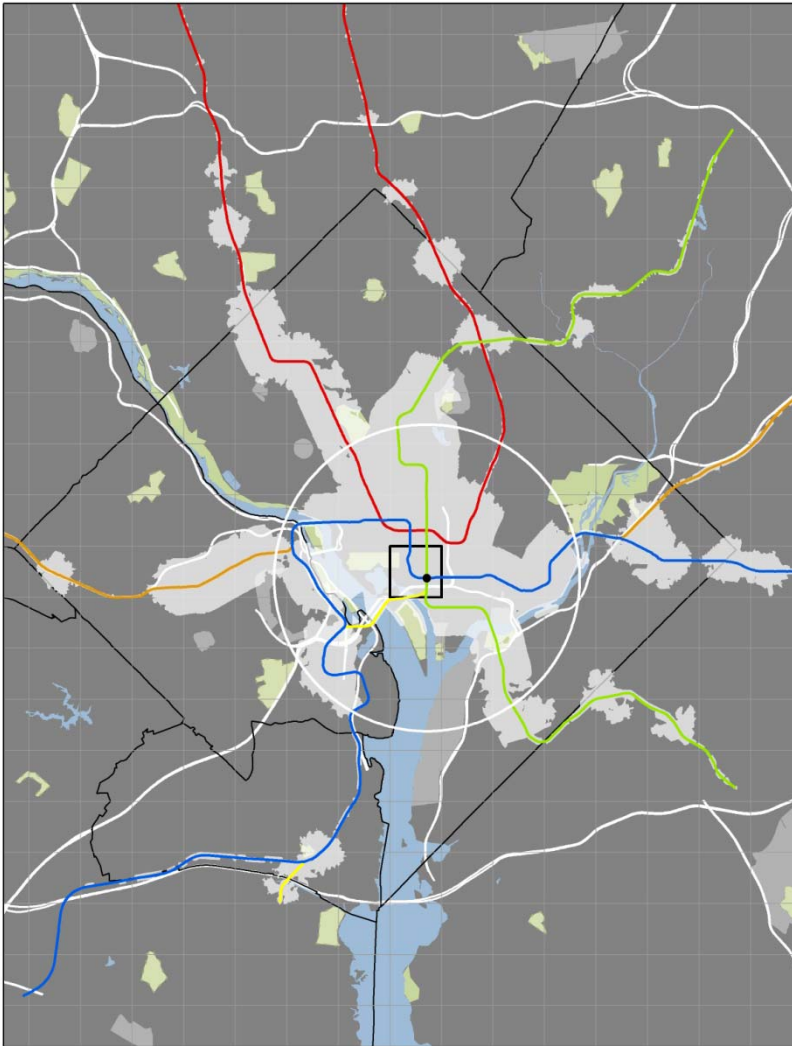


# HOW BIG IS THE MARKET FOR “SMART GROWTH”?

## ALMOST HALF OF THE ANNUAL MARKET WANTS TO WALK



# ACCESS, ACCESS, ACCESS THE NEW REAL ESTATE MANTRA...



	<b>Jobs</b>	<b>HH</b>
3 mile ring	490,802	116,998
30 min transit	637,593	179,745

# WHY MIXED-USE?

- ▶ Social Capital
- ▶ Five Minute Living
- ▶ Travel Time Premium
- ▶ Experience Economy
- ▶ The Return of Walkable Urbanism



## Economics of Mixed-Use Real Estate

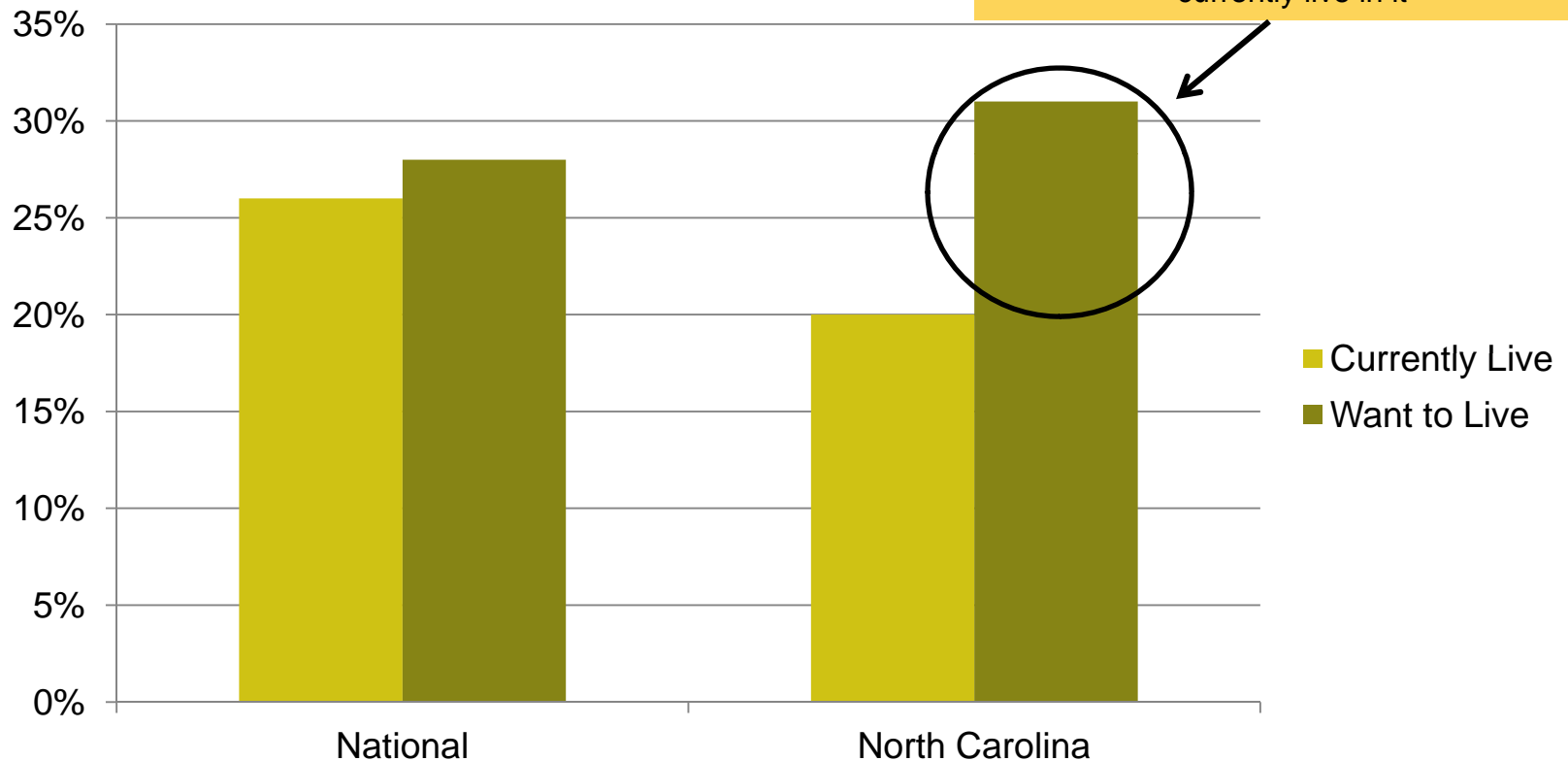
# MIXED-USE DEMAND > SUPPLY

## Consumer Preference: Currently Live and Want to Live in a Suburban Neighborhood With a Mix of Houses, Shops, and Businesses

March 2011

National Consumer Research

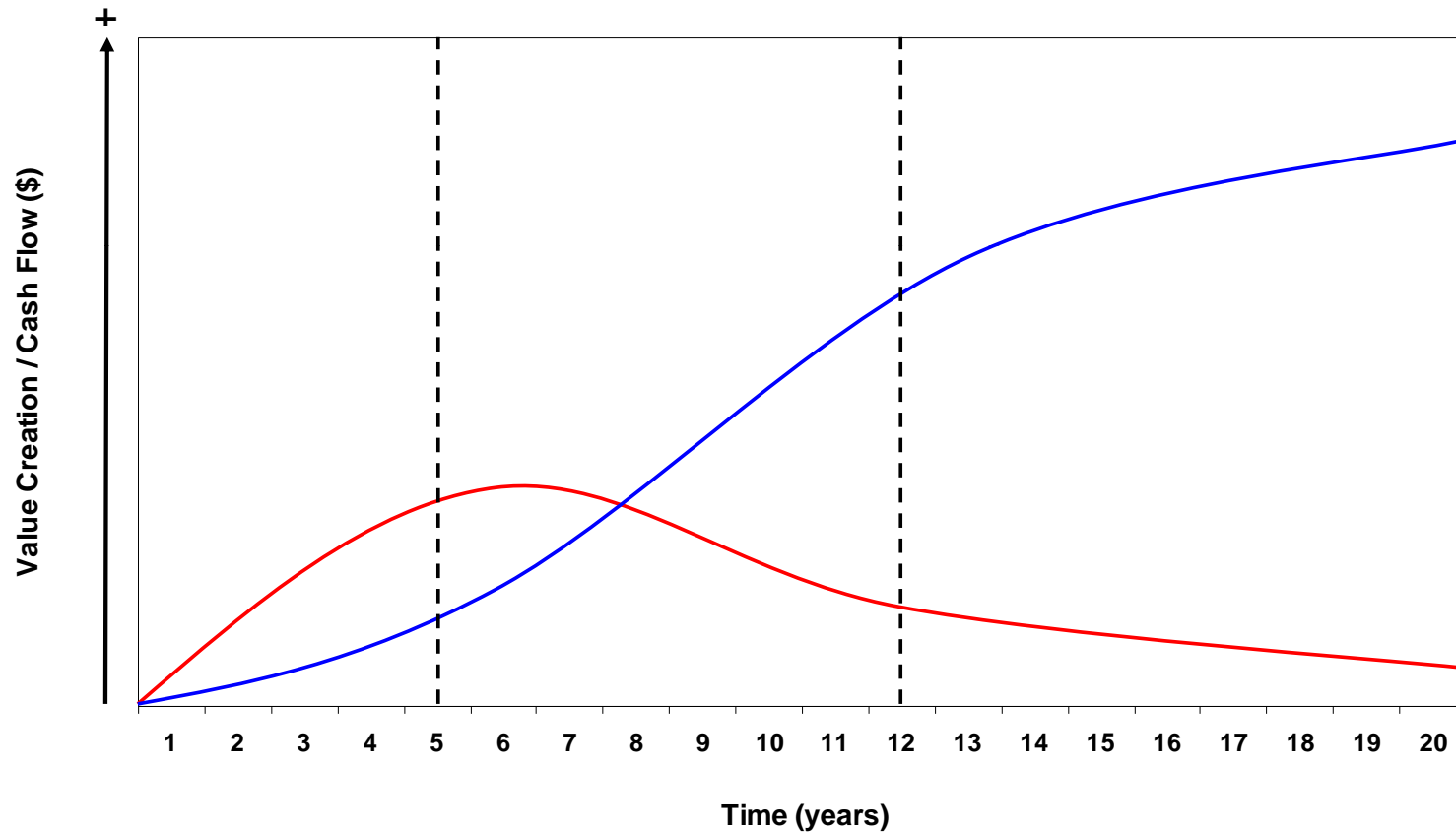
Consumer research suggests an un-met demand opportunity for consumers that want this type of environment but do not currently live in it



SOURCE: NAR, Belden, Russonello, & Stewart

# RESULT = GREATER LONG-TERM VALUE

Financial Characteristics of Mixed-Use Areas with Critical Mass (Blue)  
versus traditional Suburban Development (Red)



SOURCE: The Brookings Institution

# THREE KEY QUESTIONS TO CONSIDER





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- ▶ Does the market want it?
- ▶ Who is going to pay for it?
- ▶ Will Wall Street underwrite the deal?

# WALL STREET MEASURES “RESIDUAL LAND VALUE”

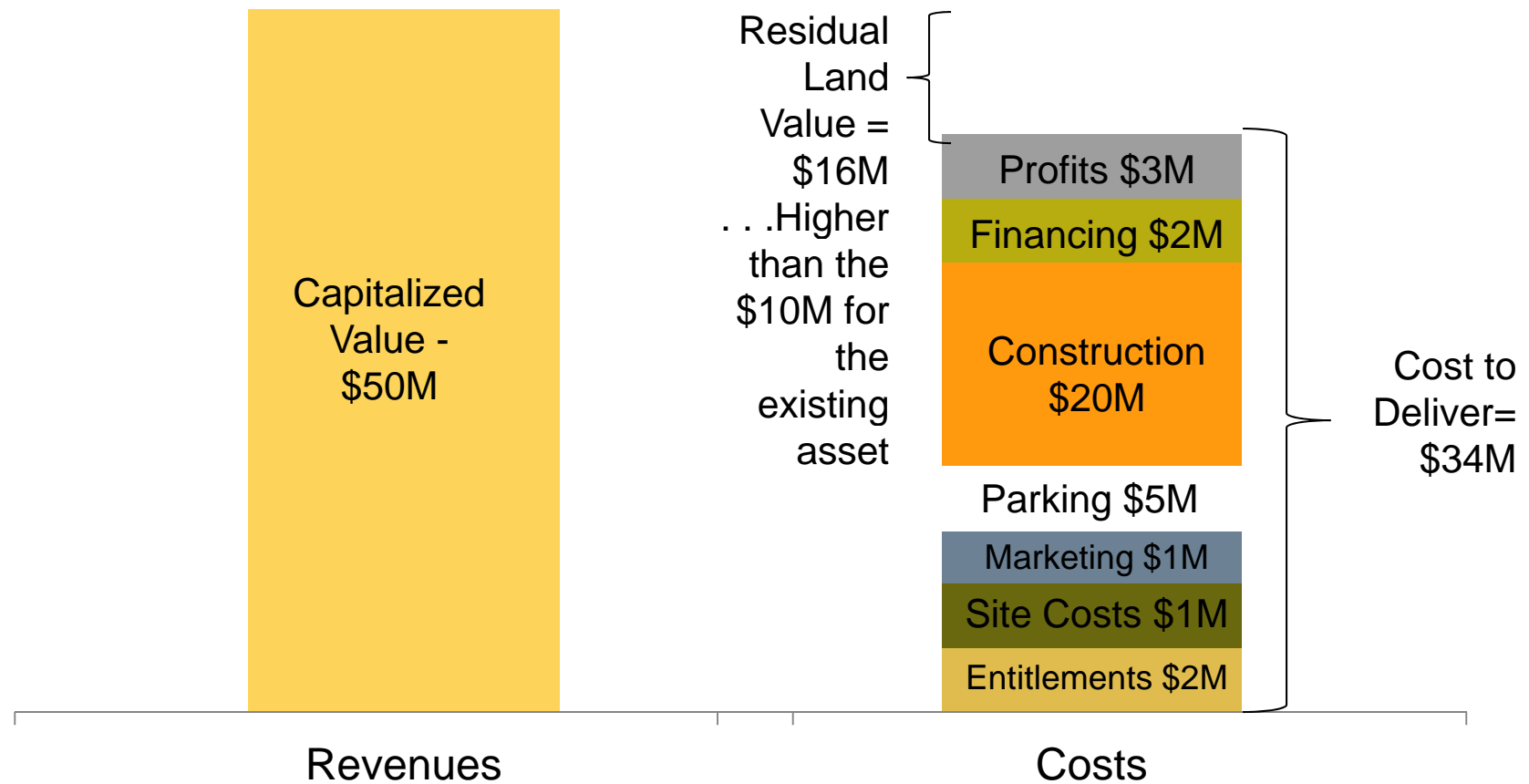


Existing stabilized asset  
has a discernible value

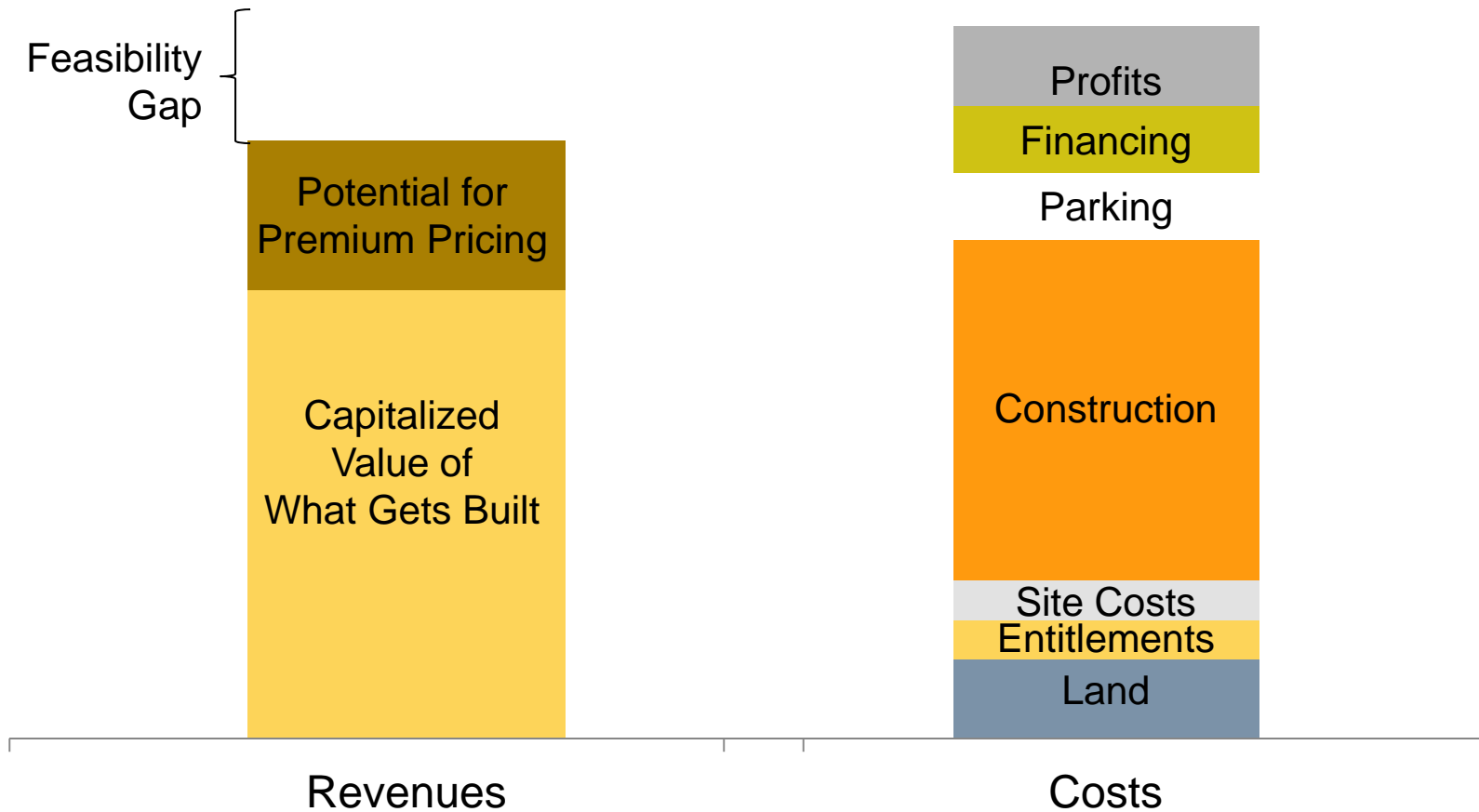
For this example: \$10M

To use the bank's money to  
control and redevelop the  
asset, the underlying land  
value has to prove to be  
more than \$10M

# RESIDUAL LAND VALUE – HYPOTHETICAL (IDEAL)



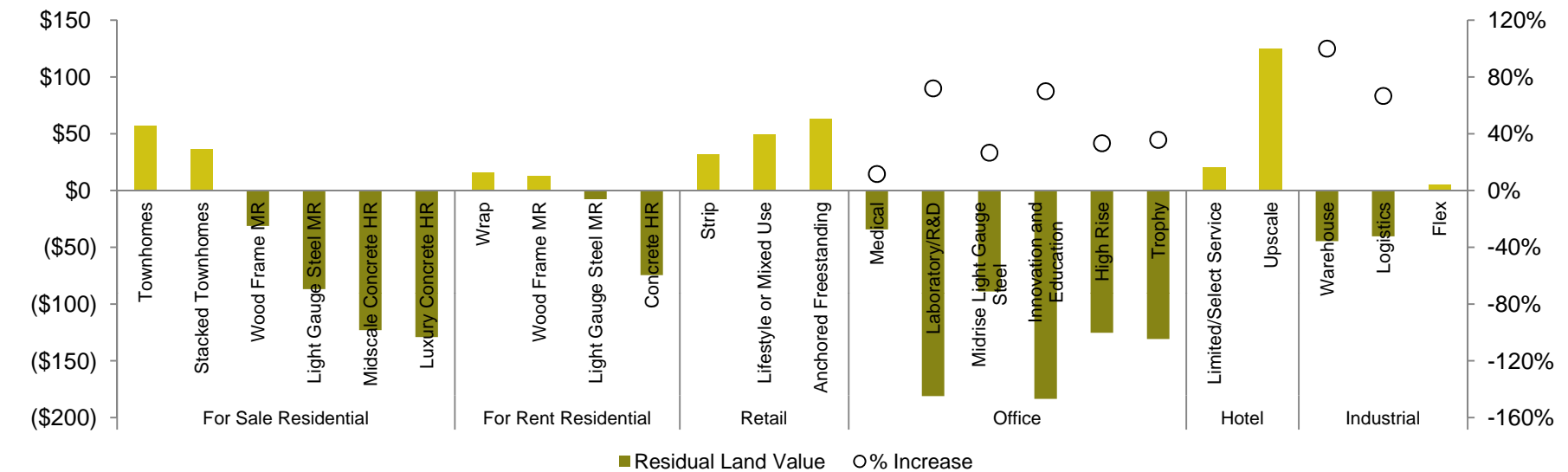
# IN REALITY, PROJECTS OFTEN LOOK LIKE THIS



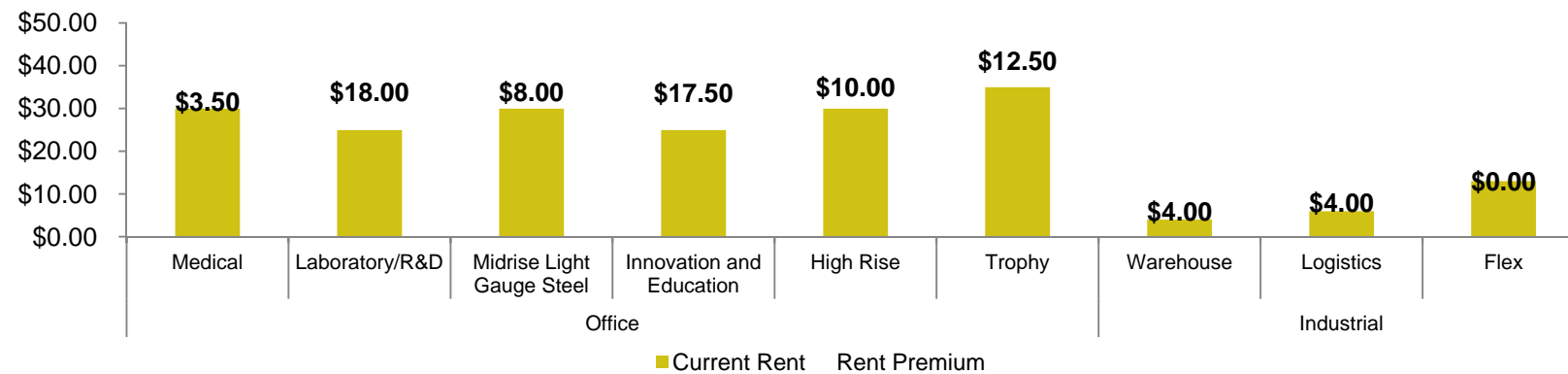
# DEVELOPMENT FINANCE A CONSTRAINT TODAY

## DEMAND CONDITIONS NOT YET DRIVING FEASIBILITY

**Residual Land Values and % Change in Rents Needed to Achieve Feasibility**  
2011



**Current Rents and Rent Premiums Necessary to Achieve Feasibility**





# FINANCING MIXED USE EVERY LAND USE MUST "FLOAT"



# THE FEDERAL GOVERNMENT

- ▶ In 2009, 84% of multifamily originations were purchased by Fannie/Freddie
- ▶ Fannie/Freddie own 35% of outstanding multifamily mortgages outstanding
- ▶ ***That is 3X the private nongovernmental MBS market***
- ▶ In 2011, Fannie/Freddie/FHA drove \$57.6B of the \$184.3B CRE/MF business
- ▶ The second-largest contributor was pension funds and life insurance companies
- ▶ These capital sources come with serious restrictions!
  - Commercial FAR
  - Davis-Bacon



## Potential Solutions and Work-Arounds



# MULTIPLE USE BEFORE MIXED-USE

## MIXED- USE v. PODS

Integrated over the entire district



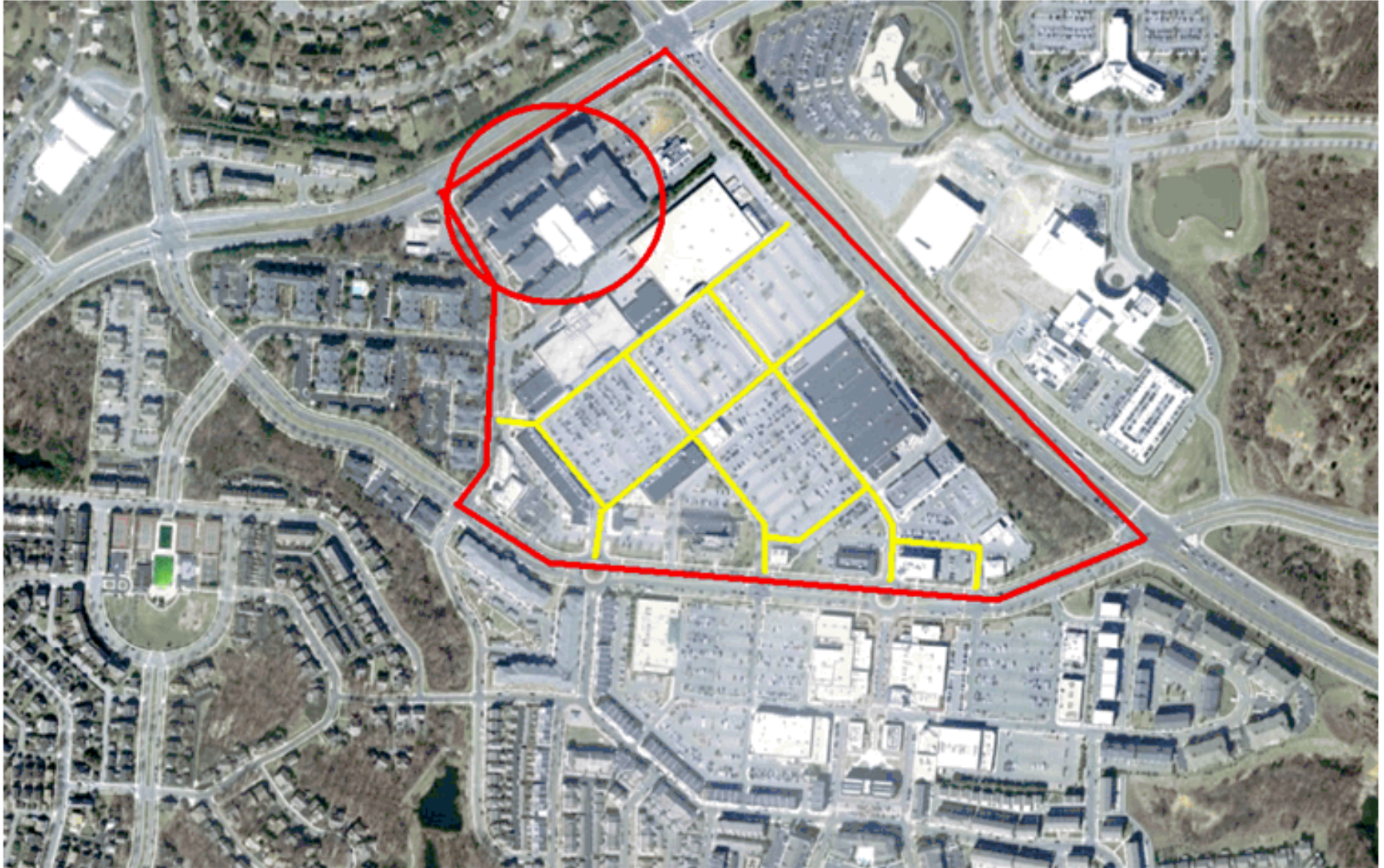


# ECONOMICS OF MIXED-USE DEVELOPMENT TOOLKIT – PLANNED DENSIFICATION





# ECONOMICS OF MIXED-USE DEVELOPMENT TOOLKIT – PLANNED DENSIFICATION



# RALEIGH EXAMPLES



## Conclusions and Next Steps

## NEXT STEPS

- ▶ Regional Competitiveness
- ▶ Capturing Gen Y
- ▶ Fiscal Responsibility
- ▶ Recession-Proofing the Economy

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