



1201 15th Street NW  
Washington, DC 20005

T 800 368 5242  
F 202 266 8400

[nahb.org](http://nahb.org)

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## American Mixed-use Development after the Great Recession

The Great Recession of 2007 – 2009 and its lingering effects severely affected the housing sector, causing a great shift in demand for housing as well as future development trends that align with the transforming economy. As the industry rebounds from the recession, developers today must now consider emerging trends in community development and design, the regulatory and financial fields, consumer preferences and market trends, and innovative strategies to finance and build the successful projects of tomorrow. With growing preferences for proximity to amenities and a multifamily sector offering promising new development opportunities, mixed-use development, in its multiple forms, is positioned to become a driver in reshaping communities.

The resurgence of mixed use has appeared in many types of development, from urban infill projects to greenfield sites, and has been transforming communities across the country. In its traditional sense, mixed use refers to a *zoning district* that accommodates multiple land uses within that space. It has often been associated with urban cores and revitalization projects that simply increase density and target a limited urban demographic. However, it is becoming increasingly associated with multiple urban design terms such as traditional neighborhood development (TND), transit-oriented development (TOD), and Smart Growth, each of which embody different development principles.

The conventional urban development paradigm and its associated problems of urban sprawl, auto dependency, loss of community, environmental degradation, social segregation and lack of affordable housing have led to the revisiting of mixed use and the possibilities it offers. The resurgence of mixed use is not only occurring in urban infill areas or peripheries such as master planned communities, but especially suburban redevelopment of town centers, malls and commercial or transportation corridors. More municipalities are moving away from conventional zoning approaches that segregate and separate land uses and adopting Smart Growth development strategies to begin integrating land uses and create communities that provide a better quality of life to their residents through design mechanisms that provide a variety of amenities in both urban and suburban settings, ultimately creating a greater sense of place and community through opportunities to live, work and play within closer proximity. This shift encompasses both TND, a design strategy focused around town planning to create a place-based community and a variety of housing and amenities within close proximity, and TOD, which focuses on greater access to public transportation systems. Both TND and TOD typically include mixed-use, and regardless of location.

## **American Consumer Trends and Market Shifts**

The Urban Land Institute's 2013 Community, Housing and Transportation [survey](#) revealed changing generational preferences for what people want from where they live. Despite a decrease in single-family home sales and construction during the Great Recession, two-thirds of Americans still live in them, and the appeal for single-family homes remains strong for those who consider moving in the next few years. Even with the foundation of American housing still intact, however, the research shows variations between different demographic groups and suggests a strong shift in market trends.

Generation Y, representing people ages 18-35, and lower-income minority groups heavily prefer more compact, mixed-use communities with reliable, convenient access to transit, and they highly value walkable communities. This large and growing population segment generally prefers the urban lifestyle in multifamily units, with proximity to amenities, and renting is much more prevalent in this diverse group, representing over 50 percent in multiple subgroups. They are more likely to be transient and to delay home buying, largely because they seek better employment opportunities or become dissatisfied with their current communities.

Generation X, which represents those aged 35-47, is more affluent and now busy rearing families, and they primarily own single-family residences. They do not typically look for mixed-use communities or for general access to transit. Homeownership and income levels are high in this group, with a general preference for suburban living and continuing to live in single-family homes.

Baby boomers, who are between 48 and 66 years old and are the largest group to approach retirement, show a wider variety of preferences. They have more mixed living patterns between urban, suburban and rural but are not as likely to move soon. However, as they approach retirement, many would like smaller homes with shorter commutes and proximity to open spaces, amenities and some transit.

Interestingly enough, another [survey](#) by the NAHB in 2012 provided a few different results regarding certain home buying preferences. Generations X and Y, typically considered the more urban-oriented, ranked being able to buy a house as large as they can higher than older consumers. As these generational variations show, living in a single-family house is not only related to the location of the community but a stage in life. Across the board, Americans value space between them and their neighbors, but they also increasingly value proximity to employment, facilities, and destinations.

That being said, even through the recession, only roughly 8 percent of potential buyers prefer central city locations most often associated with mixed-use urban developments. Two-thirds still prefer the close-in and outlying suburbs, with home and rental prices being a big decision factor (National Association of Home Builders, 2013). As housing trends and NIMBY sentiments express, over 50 percent of buyers do not want higher density development features in their communities, such as smaller lots and multifamily housing, while around 44 percent do not want mixed-use communities. Meanwhile, buyers prefer infill development over mixed-use and higher density.

Although some of this information may seem contradictory, it is important to consider what portion of the population is seeking to settle down and buy homes currently, and how the market will trend with the shifting generations. Both surveys show that Americans remain a bit conflicted with their preferences, and serving all these interests will be a challenge for the home building

industry. However, a final key point in the survey is that 78percent of Americans think that the neighborhood is more important than the size of the house (Bassert, 2014). Therefore, it is important to consider *placemaking* to allow for the privacy and community that Americans seek. Defining mixed-use communities and infill developments is important in differentiating the kinds of developments that are happening in the market as a more diverse array of neighborhoods is created. Mixed-use communities and infill developments are contributing new kinds of developments and already reshaping the urban and suburban landscapes.

## **What Types of Development are Considered Mixed-use?**

### Smart Growth

Smart Growth embodies integrating land uses in its fundamental design principles and prioritizes infill, redevelopment and densification strategies, thus influencing TND and TOD principles as well. . It seeks to create more *sustainable* communities by reducing auto dependence through improved walkability, preserving green space and natural resources, promoting urban revitalization and economic development and providing a variety of housing opportunities (10 Smart Growth Principles). Communities can achieve these objectives through incorporating a mix of housing types and civic and commercial uses, either within the same development or within the same neighborhood. This integration of uses also relates to integration with the transportation system and creating linkages between places, such as jobs and housing, as well as investing in improving existing infrastructure to be more efficient and environmentally sustainable, such as tree plantings and permeable pavement to improve storm water quality.

Furthermore, Smart Growth seeks to improve quality of life by fostering a unique neighborhood identity through comprehensive design that meets the needs of its residents. Many municipalities are incorporating Smart Growth principles into planning, as they want to change their development landscapes and improve the quality of life of their residents. The suburbs offer plenty of Smart Growth redevelopment potential with underused land, existing infrastructure, and a local population base that could support the successful transformation of these communities. The design principles are broad enough to take advantage of these essential capacities to create localized, livable communities with a sense of place and identity, but also connectivity to urban centers to mitigate further expansion into open space.

The concept of *Great Streets* has been gaining greater momentum in urban development dialogue and is a pillar of Smart Growth. It is about revitalizing streets as places by transforming them to accommodate a combination of alternative modes, pedestrian life, cyclists, and transit. This emphasis on designing pedestrian-oriented streets to improve quality of life is a key component of all types of mixed-use developments, as it aims to foster a synergy between the proximate uses. Municipalities across the U.S. are focusing their attention on creating these pedestrian-oriented streets using mixed-use developments as mechanisms to revitalize sidewalks and certain design elements to improve the visual aesthetic and function of the street to be more appealing to and safe for pedestrians. These improvements not only create a greater sense of place in existing commercial corridors and residential streets but revitalize areas by bringing back pedestrian activity. Residents can re-imagine their streets as places and destinations, rather than simply connectors to residential areas.

### Transit-oriented Development

Transit-oriented development (TOD) emphasizes connectivity and access to public transit systems that serve other areas of employment, living, and shopping in metropolitan areas. For TOD to be successful, there generally need to be higher residential densities, with amenities serving them, in close proximity to the system. They require multiple scales of integrated planning as well as increased public and private sector collaboration. With greater transit system expansion occurring across most metropolitan areas, there are more opportunities for mixed-use development for home builders along these major systems as an increasing number of people who want the convenience of transit access and connectivity to other centers. Successful TOD embraces *Great Streets* as an essential part of the development design, ensuring the high quality of streets to accommodate multiple modes of transportation, with a focus on improving the pedestrian experience.

### Traditional Neighborhood Development

Traditional neighborhood development (TND) focuses more on the local scale of design and planning. Similarly to Smart Growth, TND intends to create a sense of distinct place and community and a high-quality living environment for residents. TND upholds some of the aforementioned development patterns of compact, pedestrian-oriented development with a variety of uses, diverse housing types, street network connectivity, natural green space, and appropriate scale development that fits the local context, with common areas often designed as civic spaces to encourage social interaction. Unlike the mixed-use developments associated with urban infill, TND typically consists of single-family attached and detached homes at lower densities, often as stand-alone greenfield developments. Since these communities are artificially created, they aim to appear as if they have been established and evolved over time, often incorporating a particular architectural theme throughout. Developers need to carefully consider local real estate markets in order to identify the most viable locations for TND development so that the appropriate establishments will be able to function with the supporting population, both locally and regionally (Traditional Neighborhood Development). A TND project's most important considerations are typically the cultural and environmental context of the site, providing a diverse housing and amenity choices, and prioritizing accessibility and mobility to and within the community via multiple modes.

### **Making Mixed Use Work**

Mixed-use developments offer plenty of opportunity for developers in varying landscapes. However, given their complexity, there are many challenges that can hinder their success. First and foremost, selecting the appropriate site can be the biggest determinant in a project's success. Whether an urban redevelopment project or a greenfield community, the location of a project determines a slew of other influencing factors. Brian Allan Jackson, from neighborhood developer EYA, says well-located neighborhoods are key. "If there is a good location that does not have most life amenities within walking distance, then we come and bring them in," he says. Lack of local market demand for residential units and commercial space is a huge detriment to a project's success, especially when scale and surrounding context are not considered. Jackson also commented "scaling is a function of context, as some locations are not appropriate for high-rise construction or added retail. The density question is about location."

Persistent vacancy of these different uses is common in those that are out of context. Multifamily architect Miles Haber notes "planners make mandates for mixed-use developments to have more retail than there is a market for," demonstrating the common gap between market

realities and what planners and developers envision. Programming the uses so that their different synergies uphold each other is difficult. The immediate residential population and those from other areas must be attracted to the different spaces of the development for them to be successful, meaning the uses must cater to these populations and find the appropriate tenants for the community scale and needs. Each mixed-use development must match the local market to be successful, meaning not only residential density, but commercial potential, transit connectivity, and general demand for that kind of development that still provides a diversity of uses. As with any kind of mixed-use development, retail demand should not be expected to come exclusively from the immediate surroundings and should be able to stand alone as a use. Parking for TOD projects is contentious, as there must be an appropriate supply, so as not to deter people from using the site, yet it needs to be placed in a way that does not distract from the rest of the development.

In terms of design, many developments fall short of the aforementioned “placemaking” that creates a community feel, such as unique architectural design, amenities and street features. Though less significant than the previous factors, architectural and site design are very relevant in a mixed-use development’s success. The aesthetic and functional design of a development must not only create a cohesive sense of identity and place to attract people, but also be functional to enhance the flow of people within the site and complement the different uses. For example, a TOD must be designed in a way that it blends seamlessly with its surroundings and is easily accessible, but its aesthetic, mix of densities, and interaction with the street must all create a sense of place. This relates back to the development’s connection to the surrounding areas, meaning it must be accessible and create an experience for users, whether it is a suburban residential community or an infill redevelopment.

Connectivity and access are essential Smart Growth principles, emphasizing the connection of spatially separated places through an integrated network. In conventional residential development focused on single-use communities, street networks were designed to maximize privacy and isolate areas from surrounding communities, thus limiting the modes of travel to residents and potential destination. Smart Growth focuses on increasing network connectivity to accommodate multiple modes of travel, integrating the planning on multiple scales and using a hierarchy of streets, from neighborhood and community to the metropolitan region. Although a mixed-use master planned community may provide more proximate destinations for its residents and good internal connectivity, it may be isolated from surrounding communities, defeating the purpose of accessibility on multiple scales. Therefore, the surrounding context must be considered in the planning of street networks to maximize the connectivity to destinations, both within and beyond the community.

Successful mixed use also poses unique challenges, specifically because of their complexity and cost to build them. Regarding TOD, properties along transit lines are typically more expensive and require additional infrastructure if there will be increased density. Often, the infrastructure is outdated as well, adding an extra cost to the development that can make keeping units affordable an issue. Transit authorities have deeply embedded real estate interests around these stations, wanting to maximize ridership by increasing density around the stations and maximizing land values (National association of Home Builders, 2010). Authorities may have high expectations for TOD developers, specifically in the form of density requirements and subsidized parking facilities meant to attract drivers. Furthermore, local zoning ordinances and other regulatory barriers may limit different types of development through single-use zoning, completely restricting sites that would be ripe for mixed-use development.

TOD and mixed-use projects in general can also face significant NIMBY scrutiny due to fears of increased density, crime, lack of parking, increased rents and potential change in their quality of life. Therefore, the political process and NIMBY sentiment can greatly delay approval, the construction process, or defeat the project altogether. Overcoming this barrier requires continued dialogue with officials and community stakeholders to communicate concerns and clarify potential issues, occasionally requiring concessions to the development. Good stakeholder involvement in the development process can help ensure the long term success of the project.

## **Financing Mixed Use after the Great Recession**

As previously mentioned, the 2007 - 2008 financial meltdown and ensuing Great Recession left credit markets and municipal bond markets financially strained, making it increasingly difficult to finance development projects of any kind. The housing industry was in a downturn, with potential home buyers unable to purchase homes, existing homeowners caught in precarious mortgages, banks suddenly not making loans to builders and developers, and capital and municipal bond markets increasingly averse to lending because of perceived risks. Along with increasing land use and design regulations, and on occasion, community opposition, these factors increase the cost of development, making it difficult to initiate new projects. In mixed-use projects specifically, each of the different uses has to have a synergy that supports one another, such as retail being sustained by the surrounding residents. Because maintaining this viability over time is challenging, banks see mixed-use development as riskier, and developers are being required to put more equity into the project (Development Planning and Financing Group. Inc., 2012).

Developers have had to become innovative in how they use different financial resources and opportunities to complete their projects, often relying on public-private partnerships and re-envisioning projects with concessions to get funding and approval. More developers are using public financing mechanisms to fund the large capital costs for development projects, especially expensive infrastructure renovations or additions (Development Planning and Financing Group. Inc., 2012). These partnerships can be beneficial to both the public and private parties, as they share capital expenses and help spur development. Carter Froelich, a CPA with the Development Planning and Financing Group, Inc. (DPFG), who works extensively with developers and communities, says "developers are interested in reducing costs in financing their vision to ultimately have higher returns. This means financing the easier components first to get capital sooner than later and mitigating risk to other parties to pay their fair share."

Many of the projects benefitting from the layering of public finance tools have involved urban redevelopment initiatives as opposed to master planned community developments (Development Planning and Financing Group. Inc., 2012), but the use of these tools is now expanding. NAHB's three-part [series](#) on innovative infrastructure finance solutions offers builders, developers, and governments valuable tools on understanding the different opportunities available to help finance some complex projects amid a difficult financing environment.

### New Market Tax Credits

The New Market Tax Credits, established by the federal government to stimulate economic and community development and job creation in low-income communities, is one of the more popular and flexible tools used in urban redevelopment projects (National Association of Home Builders, 2007). It allows individual and corporate taxpayers to receive credit against federal

income taxes for making “Qualified Equity Investments” in investment authorities called Community Development Entities (CDE’s), which invest proceeds into low-income communities, thus benefitting the local communities through new construction, improved access to amenities, and future potential development. CDE’s offer more flexible financing than conventional lenders, where borrowers can benefit from below market interest rates and underwriting terms. However, NMTCs are primarily used for urban renewal construction of rehabilitation projects, so they are more limited in their applicability.

### Community Development Authorities

Property owners within a certain area can petition their municipalities to create quasi-governmental authorities called Community Development Authorities (CDA). These special taxing districts provide the property owners with public services. A CDA is a lower-cost, tax-exempt and flexible financing tool that can be used to fund a broad range of infrastructure needs and services through special taxes on the properties negotiated by the property owners (National Association of Home Builders, 2007). Limitations on what kinds of projects can be funded depend on what state laws allow, and they are typically used for larger developments. They provide funds for higher-level public infrastructure improvements ahead of development, benefitting both private and public sector interests, as well as a likely higher return to the developer. This higher return on equity can make otherwise unfeasible projects feasible, such as some complex mixed-use projects.

Other special taxing districts include Public Improvement Districts (PID) and Municipal Utility Districts (MUD), which create a mechanism to finance public improvement projects through issuing special assessment bonds that are repaid via annual assessments or taxes levied on benefitting properties. The bond is available for immediate use for initial infrastructure costs without having to wait for revenues to accumulate, such as must be done with impact fees, thereby enhancing the developer’s ability to finance a project and benefitting the community.

### Tax-increment Financing

Tax-increment financing (TIF) has become another popular tool that is being used more extensively by communities and developers. TIFs use the difference between a site’s pre- and post-development tax revenues for a proposed development to finance it. The jurisdiction is able to recapture the increased taxes attributable to redevelopment, the “tax increment,” and put it towards financing a broad range of purposes, such as infrastructure and property acquisition. It has typically been associated with urban redevelopment projects, but many states have expanded their enabling authority over time to allow their use with a growing list of eligible projects (National Association of Home Builders, 2007).

### Other Public-Private Partnerships

In addition to these public financing strategies, public-private partnerships have developed multiple arrangement structures to begin projects without relying on expensive, traditional bank loans. For example, the Whisper Valley mixed-use planned development outside of Austin, TX, used public-private partnership strategies with local governments to fund much of the project (Development Planning and Financing Group, Inc., 2012). The City entered into a cost reimbursement agreement for almost all of the project’s major infrastructure requirements upfront. The developer will then repay the city over time by giving a portion of the revenue

derived from land sales within the project. PID bonds fulfilled the rest of the necessary capital, allowing the developer to start the project sooner than later.

In another example, the multifamily mixed-use Flats East Bank Development in Cleveland, OH, the developer entered into a complex collaboration of public and private financing sources, including TIF bonds from the City, State, County and Federal governments, the Port authority, regional utilities, the Cleveland Development Partnership, and Wells Fargo Bank. It leveraged its proximity to the port, the inclusion of schools and recreational space, and access to transit, among many others, to create partnerships that helped finance its ground-breaking phase.

These examples of multiple financing tools and strategies reflect the variety that developers and communities are using to build more complex mixed-use projects at a time when finding finance sources remains difficult. Part of the challenge lies in being able to layer them appropriately to fund these projects, and finding the appropriate set of partnerships to make them successful, while still making a return on investment.

## **Case Studies**

In the midst of the credit crunch in the past decade, many mixed-use projects in multiple setting types have emerged as successful, demonstrating innovative ways to maximize their local context and provide residents with a high quality of living. Daybreak, outside Salt Lake City, Utah, is a TND master-planned community by Kennecott Land, located on a light-rail line connecting to downtown Salt Lake and the University of Utah and offering its residents an entire lifestyle characterized by walkability and community sustainability. Its integrated plan places amenities within a five-minute walk from all homes, from nature trails and schools to light rail and retail. The community includes community gardens, two light-rail stations, and a regional healthcare facility and offers a range of different housing types in a regional vernacular style to accommodate a diverse community. Offering a prime, suburban mixed-use community experience, Daybreak was able to leverage several factors in its favor to create a successful project, accommodating future growth of the area, offering a variety of amenities and housing options, and reshaping suburban development in the region.

Clipper Mill, in Baltimore, MD, is an infill redevelopment project that repurposed an old machine manufacturing complex into a vibrant mixed-use community featuring office space, studio space for artists and craftspeople, and a wide variety of housing options. Located on a Baltimore light-rail line, it creates a unique sense of place through its design in preserving its historic character and incorporating multiple uses. Although it was mostly completed in 2006 prior to the recession, Clipper Mill is a model project that used multilayered financing through public and private funds and partnerships, demonstrating that innovative financing tools and vision can create a successful mixed-use community.

Maple Lawn Farm is a hybrid TND, mixed-use community in Howard County, Maryland, that faced many of the aforementioned challenges with trying to develop a master-planned project (National Association of Home Builders, 2011). Its developer formed integral partnerships with other builders who shared a similar vision for the land and took advantage of the existing surrounding infrastructure and the growth potential to move the project forward. Howard County proved to be a collaborative entity that helped with the necessary zoning requirements. However, community opposition was the biggest challenge, even though Maple Lawn espoused Smart Growth and land conservation principles. In the end, the project had to make several concessions and lower its allowable density, despite the municipal zoning code allowing for higher density. This demonstrates the difficulty of balancing the conflicting interests of



conservation groups, complying with zoning codes, and trying to build a higher density project. Financers were also concerned about Maple Lawn Farm's retail component, especially considering the higher rents. However, tenant demand remained high, as they also shared the vision for what the community wanted to provide its residents. In essence, collaboration with the multitude of players proved beneficial to completing Maple Lawn Farm and creating a desirable community with a sense of place and a product that is a departure from the adjacent large-lot suburban developments.

Denver-based Continuum Partners is set to break ground in December 2014 on the redevelopment of the old University of Colorado Health Sciences Center. The "village" style mixed-use community beat a previous proposal to place a Walmart on the property because of Continuum's attention to the neighborhood's responses and vision for what the property should look like. It focuses on housing with integrated public spaces and pedestrian amenities and smaller-scale retail to create a more New-Urbanist style through adaptive reuse of the old site, essentially creating an urban neighborhood. Continuum stands out as a developer in how it consults with neighboring residents to incorporate important local needs and develop communities with a sense of place (Raabe, 2014).

## **Conclusion**

As the real estate and housing markets recover and the industry responds accordingly to the changed trends in financing and demand, the very face of development will continue to transform. Aside from increasing pressure from municipalities who are incorporating Smart Growth principles into planning, urbanization trends present a demand for communities that offer proximity to where people live, work and play. Developers and builders will be key players, investing their efforts in opportunities where these projects can be successful. As Froelich explains, "entrepreneurial people are coming in and redesigning places with potential. There is less thinking about periphery, but more about smaller, suburban infill lots. With mixed-use development, the risk is more distributed, also making it attractive to developers."

This being said, many developers are interested in creating mixed-use communities where they see the benefits of providing homebuyers with what they want, but also leveraging the different uses to increase the value of the development through the added amenities and conveniences. With growing development potential in first and second-tier U.S. metro areas, developers can find opportunities within and adjacent to built-up areas to initiate projects that can appeal to the American populace. They will be essential in redefining the urban and suburban landscapes to provide residents with a living experience emphasizing walkability and proximity. In all its diverse forms, mixed-use development shows potential in shaping the future of not only residential construction, but also the jobs, retail, and entertainment uses that are part of our communities.

Author: Dylan Giordano, 2014 NAHB Land Use and Design Intern

For additional information contact:

Claire Worshtil, Program Manager for Land Use

[cworshtil@nahb.org](mailto:cworshtil@nahb.org)

202-266-8309

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