

# **‘Development Economics 101’:**

## **How Will Growth, Emerging Economic Pressures & Market Forces Influence In-fill Redevelopment?**

*For*

**Maryland-National Capital Park & Planning Commission**

*By*

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# Guiding Questions

- Where will the County's 213,000 new residents live?
- How can we sustain “livability” in existing communities?
- How do we prevent decline of older areas?
- How will growth affect residential development?
- How can we sustain high-quality public services & facilities?

# The Fundamentals

- Are there sites to (re-)develop? How competitive are they?
- What are the potential *hurdles* to overcome?
- What does the market analysis say? How do demographic forecasts & market conditions translate into development potential?
- *Does it pencil out?* Can a developer create long-term value?
- What are the potential costs & benefits to the public sector?

# What is In-fill?

- The planning buzz—
  - Mixed-use vs. multi-use
  - New Urbanist
  - T.O.D.
  - Urban retrofit, suburban in-fill
  - Lifestyle center, category killers
- Obvious *shared goals*—reining in sprawl, strengthening diverse neighborhoods, protecting open space, enhancing the *public realm*, reducing reliance on the automobile



# Two Examples

# Market Common—Arlington

- “Mixed-use lifestyle urban village”
- **\$120 million** project built on former Sears Dept. Store site, vacant for 10 years
- Three phases comprising 172,000 SF of retail, 300 MF units, 87 townhouses, Whole Foods
- Anchored by national retailers with top sales performance
- Entirely privately financed, achieving premium rents, sales
- Phase I sold in 2003 for *record* **\$986/SF**



# Market Common—Arlington

- Mix of unit types attracts first-time renters & empty nesters
- Strong market conditions did *not* require any public support
- Complicated site development, structured parking requirements increased development costs, necessitating higher rents, sales prices
- Project stimulated adjacent redevelopment of retail, office, 300 new housing units



# Paseo Colorado—Pasadena, CA

- “New Urbanist”, open-air village
- **\$222 million** project developed as public-private partnership
- 15-acre site was a failed, 1980s mall that had eliminated city street grid
- 590,000 SF of retail, 400 MF & loft apartments ranging in size from 600 to 1,400 SF
- Anchors include Macy’s, 14-screen cinema, dining district



# Paseo Colorado—Pasadena, CA

- City took lead role in redevelopment
- Relocation of existing retail tenants required extensive negotiations
- Significant public outreach—60 meetings—resulted in unanimous project approval
- City provided **\$32 million** for parking & costs associated with street grid
- Generating net new property & sales taxes, TIF funds



# Lessons Learned: This is NOT Easy!

- In-fill is more complex, requires greater understanding, more time to develop
- More expensive, more complicated financing requires higher rents, sales
- Multiple development partners with specific expertise
- Longer time required to realize return-on-investment
- Oriented to affluent households
- In strong markets, housing helps a project pencil out
- Higher land & project costs requires higher densities

# Lessons Learned: This is NOT Easy!

- Mix of housing types—broadens market appeal—to young singles, empty nesters
- Adding residential may help a project pencil out
- Retail in-fill emphasizes anchor tenants that generate evening traffic, enhance '18-6' environment
- Proximity to transit generates premiums
- Higher retail sales performance generates spin-off benefits to community
- Stimulates additional adjacent redevelopment