HOWARD KOZLOFF

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Mixed-use design has advanced from the traditional main street approach—with residential above retail space—to a diverse grouping of property types, users, and strategies to create true urban environments.

GETTY IMAGES

Mixed-use developments certainly do not constitute a new approach to creating desirable places for people to live, work, and play. Originally resulting from the natural evolution of cities, mixed-use development lost favor when suburban subdivisions and office parks gained favor. Although a brief and somewhat unnoticed mixed-use flurry occurred in the 1980s, developers generally steered clear of mixed use because of the complexity involved in zoning, financing, designing, and constructing such projects. During the early 1990s, the general real estate strategy was to keep things simple.

For nearly a decade, however, the relative resurgence of cities and the desire of some to limit sprawl and increase sustainability have seen mixed use emerge as a major component of contemporary real estate strategy. This resurgence takes the traditional main-street-residential-over-retail approach to the next level by introducing other uses and forms to the urban, and even suburban, environment. It is important to note, though, that suburban development of subdivision housing, office parks, and strip malls still remains a formidable force in shaping America's landscape.

The need to look beyond traditional main street development comes not only as a refinement to what "mixed-use" really is, but is based on the fact that such housing actually is not a very usable or desirable type of housing for most people. The following—compiled by Alan Mountjoy, urban design manager for Cambridge, Massachusetts–based Chan Krieger & Associates—are some examples of the conflicts among uses:

The $1 billion Time Warner Center in New York City is a vertical urban mixed-use project that includes residential space; office space; a hotel; and retail space, with a Whole Foods grocery store; and arts/performance space in its two towers.

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Park Place at Bay Meadows in San Mateo, California, combines retail, residential, and office space in a pedestrian-friendly environment.

■ Most homeowners would like to be situated in quieter locations with amenities and views, not necessarily above a store.
■ Retail clusters often are noisy, and do not need views or green spaces, but rather thrive on intensity and access to busy thoroughfares.
■ Office uses work well with retailers, but larger retailers need large footprints that do not generally work well with office widths.

As a result, Mountjoy says he sees mixed-use development in cities "now being conceived of as 'insertions' into gaps in existing downtowns as opposed to greenfield sites. In most cases, existing retailers do not object to the introduction of a limited number of large new anchors that will attract new customers to the edge of an existing retail area." These anchors, Mountjoy continues, can be large grocery stores or multiscreen theaters. "The anchors then are surrounded by smaller retailers, and some office space that can be placed above retail. Housing is placed around these attractions in locations less central and in most cases is used as a buffer to surrounding residential districts."

Traffic, and the need for community and sense of place, is driving mixed-use design today, says Andy Cohen, managing principal of the Los Angeles office of international design firm Gensler. Tired of spending hours in their cars, people are looking for places where they can walk, socialize, and interact—and where they can live and work, he maintains. Regardless, there will still be many people driving to such developments, and those who may live there will have cars to take them elsewhere at times, continues Cohen. Mountjoy explains that the benefits of a mixed-use cluster are that a couple of parking structures, which can be built cheaply and screened attractively and effectively, can service a variety of uses because peak demands differ. Parking generally can be shared by office and retail uses, or by residential and commuter uses, or by commuter and entertainment uses. Sharing residential parking can often be problematic, however, as renters and owners alike want to know that there will be a parking space waiting for them without having to search for it.

By reducing the need for a car and limiting the space needed for parking cars, no matter to what extent, it can be argued that mixed-use developments are more environmentally friendly than their single-use counterparts. There is a need for density and a mix of uses around transit hubs, points out Bryce Turner, president of Baltimore, Maryland–based Brown Craig Turner Architects. Mixed-use development around transit is a highly sustainable form of development that reduces the need for a car. "As such, many of the newer mixed-use 'insertions' are fueled primarily by the presence of mass transit," adds Mountjoy. "It really allows for an increase in density that was not possible when the new urbanists first conceived of 'Main Street.'"

According to Turner, mixed-use development and design will become increasingly greener in terms of design and form. As with parking, he contends, peak demands on infrastructure and mechanical systems differ in a mixed-use environment where energy and water needs can be spread over a 24-hour period, rather than concentrated during work hours for commercial and office uses or nonwork hours for residential use. Many developments are even incorporating renewable resources, including self-generating electricity. Various landscaping schemes can be included that reduce the need for excessive water, that recycle wastewater, or that reclaim rainwater when water is needed.

A number of mixed-use developments are being designed to meet the LEED standards set by U.S. Green Building Council. Although these projects today generally are high profile, Turner believes that green building will be used increasingly and become progressively cheaper. Today, building green is about 5 percent more expensive than standard construction, although some green developments reportedly have been less than 2 percent more expensive. Given some of the long-term benefits of green architecture, the reduction in costs, and the already environmentally friendly attributes, more mixed-use developments are likely to pursue LEED certification.

To be sure, many mixed-use projects that have been high profile have not focused on green design, but have been noteworthy in terms of location, scope, and cost. The common thread, however, has to do with the types of uses found in mixed-use development, which today are centered on "lifestyle retail," such as grocery stores, restaurants, and entertainment. For example, the Time Warner Center, a $1 billion vertical mixed-use project at Columbus Circle in New York City, includes a more than $40 million apartment in its residential component—the highest price ever paid for a New York City apartment; office space; a hotel, the luxury brand Mandarin Oriental; retail space, with a Whole Foods grocery store; underground parking; and arts/performance space, including Jazz@Lincoln Center, in two towers located at the southwest corner of New York's Central Park. Although generally considered a success thus far, it is a project that could not be replicated in any other location at the same scale. Yet, many vertical mixed-use projects are taking root in much the same vein as the Time Warner Center.

Santana Row, located in San Jose, California, is more horizontal and outdoor focused.It was developed by Rockville, Maryland–based Federal Realty Investment Trust as "a real urban neighborhood that provides a vibrant and diverse mix of shopping, dining, entertainment, and living." Building heights are low and the project incorporates traditionally interior circulation elements—including stairs, balconies, and terraces—as part of the public realm.

More vertical than Santana Row, but less so than the Time Warner Center, downtown Silver Spring, Maryland, is approaching mixed use by "districting"—that is, assigning each building to a single use, whether office or residential (most buildings do, however, include ground-floor retail), and grouping the buildings together around central plazas or strategic institutions so that a district is created in which live, work, and play uses are within short walking distances of each other. "People want to be able to walk to their destinations—to dinner, to buy groceries, etc.," notes Turner, "especially when they are in their 20s or are urbanites or empty nesters." In many cases, a single owner/developer is creating multiple buildings with differing uses as part of a single development plan.

A pedestrian-oriented district with housing components on each end, as well as apartment units above retail space, is the focus of the Glen Town Center in Glenview, Illinois.

Challenges to Financing Mixed-Use Development

While creativity has given birth to a rediscovered real estate sector—mixed-use products— conservatism in the financing sector has hindered progress. Thinking "outside the box" is encouraged, but financing methods are still very much "within the box."

The basic problem lies in the premise of conventional investment practices. Conventional development has been codified into 19 standard product types (see figure on facing page). Because mixed-use projects do not fit into these standardized financing categories, they are deemed risky, leading to increased financing costs.

In financial markets, investors are required to trade similar products, treating them as commodities. Investment bankers have been trained to think of standardization as a means to minimize risk and maximize trading volume. As a result, when a new product is introduced, it is perceived to carry with it increased risk and the lack of a market, making it less attractive to potential investors. Such investor requirements favor conventional development, placing mixed-use development at a competitive disadvantage.

Conformity to the 19 standard real estate products, combined with the short-term bias of discounted cash flow (DCF) methodologies, leads to an investment environment in which sprawling strip commercial projects and subdivision housing are the preferred investment types, despite market, environmental, and public policy support for mixed-use products.

The currently accepted methods for comparing alternative investments include DCF and its various derivatives, such as net present value (NPV) and internal rate of return (IRR). These methodologies work very well for short-term—that is, less than five years—investments.

However, real estate has always been a long-term asset class, one of the reasons the IRS allows the depreciation of real estate over 39 years. This short-term bias in the DCF and IRR methodology means that one cannot value, and get investors for, the mid- and long-term assets that real estate historically has produced. This bias has contorted and cut off the financial power of real estate, creating a throwaway built environment with a myriad of negative social, environmental, and financial consequences. DCF and IRR make one blind to the returns generated by great urban real estate as it matures and generates stronger cash flow over time.

Conventional investors generally do not recognize the mid- to long-term value of pedestrian-oriented downtowns, university-anchored cores, suburban downtowns, etc. If a mid- and long-term investment market can be revealed, perhaps investors will recognize that such returns are better and longer lasting than conventional investments.

Real estate investors tend to have only one type of financial return—short-term cash flows that must be constantly flipped and reinvested. The financial underwriting of conventional development implies that investors must accept a one-size-fits-all, short-term logic. However, many investors would prefer mid- to long-term investments that can gain substantially in value from intrinsic variables—such as high-quality construction, favorable location, good architecture, and pedestrian-oriented urban context—which return better financial results over time.

Different types of real estate investors have different needs. There are publicly traded REITs that have a short-, mid-, and long-term need for sustainable cash flow. There are foundations, university endowments, insurance companies, and pension funds that have well-defined, predictable, short-, mid-, and long-term cash-flow needs. And there have always been individual and family investors who look out for many generations by seeking sustainable returns. Yet, most of these investors use the same short-term biased DCF/IRR-based methodology, and the same list of "conforming" standard products, to evaluate investments.

To address this behavior, different funding sources with different investment horizons can be grouped to finance various components of a project's equity needs. Time "tranches" could be introduced to match these investors with the appropriate "slice" of an investment.

Using this approach, short-term investors who want to get in and out within five years will receive the bulk of the cash flow during the first five years of a project's life, and once their investment is returned, will have no residual ownership. The second-time tranche, say, six to 12 years, will pay off the mid-term equity investors who will receive most of the cash flow after the first tranche investors have re-

The notion of mixed use as a districtwide, rather than individual, building strategy speaks to the idea of "place making." Marty Borko, principal in the Los Angeles office of Gensler, believes that, when it comes to place making, mixed-use densities are simply more powerful. If the goal of creating live/work/play environments actually is to take root, integrating community needs should be the first step in developing successful mixed-use places. Plugging into the context of a neighboring community, Borko explains, is essential to generating enough critical mass to sustain a project and to determine the needs not currently being met within that community. "Know your community, know your audience," he implores.

Successful mixed-use design integrates community needs by striking a balance between form and content, which can be difficult since different uses have different design needs. For example, parking, retail, and residential are structurally all different. Further, the venting requirements for, say, a parking garage and a restaurant are very dissimilar, especially if there are residential units above. Just as the program mix and tenants are crucial, so, too, is the "look" of the place. The right mix and balance of uses and design create a people-friendly environment, which is essential to place making.

The look of a place obviously is influenced by the architecture of its buildings. Equally important, however, is the street. Mixed use by its nature, the street includes at least some street frontage, and usually an entire street or transportation framework, or grid. As Borko contends, true place making occurs on the street when choices are made of paving materials, street furniture such as lampposts and seating, and landscaping with trees and horticulture. Further, the dimensions and widths of streets and sidewalks, as well as public gathering places such as parks and plazas, are all important and help to characterize and create an image of a place. Most users will react, whether consciously or not, to the physical appearance of a development, which will help define their experience.

Although streets, parks, and plazas create the overall character and quality of any development, the anchors that Mountjoy discusses oftentimes are the icons—in terms of design, location, and/or use—that differentiate a mixed-use development as a "place."

ceived their expected returns along with a residual long-term cash flow. Finally, the third-time tranche investors will receive the bulk of their returns in the long term, say, after the 12th year.

Public entities will most likely use this final tranche in order to take advantage of alternative financial return mechanisms—for example, certain public policies, a tax base increase, or a revitalized section of their city. This indirect compensation may be as important, or more so, than direct financial compensation. Such a tranche system addresses investors' needs, while embracing the benefits of mixed-use development.

Trends are starting to emerge in which mixed-use, pedestrian-oriented projects are outperforming some of their single-use conventional counterparts in terms of lease rates, residential rents and sales, and retail sales. This translates into increased revenue for municipalities, making them more apt to adopt policies encouraging such projects.

Conventional development still has a distinct competitive advantage—its recent well-understood history—over the new mixed-use products. As a result, financing will be cheaper for the familiar standard product types for the foreseeable future, than for mixed use, about which there is limited information. Most important, there is even less information on the long-term performance of mixed use. So, to level the playing field, research will be required on the performance of mixed-use walkable products.

There is a demonstrated demand for mixed-use products in urban and suburban areas alike. For mixed use to succeed in the long term, financing practices must change to recognize the value of mid- and long-term returns and demonstrate that mixed use can be superior to conventional development.

Despite the financial, social, and environmental benefits of mixed use, those with the power to implement it are not willing to break from the norm. Such reluctance will only perpetuate the endless sprawl and faceless developments consuming the country.**—Christopher B. Leinberger,** *partner in Arcadia Land Co., a new urbanism development firm based in Philadelphia, and a managing partner of Robert Charles Lesser & Co., a real estate advisory firm based in Washington, D.C.; and* **Howard Kozloff,** *a freelance writer based in Santa Monica, California*

THE 19 STANDARD REAL ESTATE PRODUCT TYPES

Income Products

Office
- Build-to-Suit Office
- Mixed-Use Urban Office/Retail/Restaurant
- Medical Office
- Multitenant Office

Rental Apartments
- Garden Apartments
- Urban Apartments

Industrial
- Multitenant Bulk Warehouse
- Build-to-Suit Office

Miscellaneous
- Self Storage
- Mobile Home Park

Retail
- Grocery-Anchored Retail
- Big Box-Anchored Retail
- Lifestyle Center
- Outlet Mall

Hotel
- Not Possible without Subsidy

For-Sale Products

Housing
- Entry Level
- Move-Up Housing
- Luxury Housing
- Retirement/Assisted Living
- Resort/Second Home

Source: Christopher B. Leinberger of Arcadia Land Co. and Robert Charles Lesser & Co.

While certain retail uses can, and have, acted as mixed-use anchors, two unconventional anchors are hotels and sports facilities. Borko notes that hotels come closer to presenting a true 24-hour life than any other use. They add vitality to a district or neighborhood. The area around the hotel can be new and exciting to hotel guests. If it has entertainment uses, business or family travelers can walk out the hotel door and into movies, restaurants, concerts, etc. A hotel is unlikely to sustain entertainment uses on its own, but it will add energy to an area—illustrating why its proper integration into the context of adjacent communities is so important.

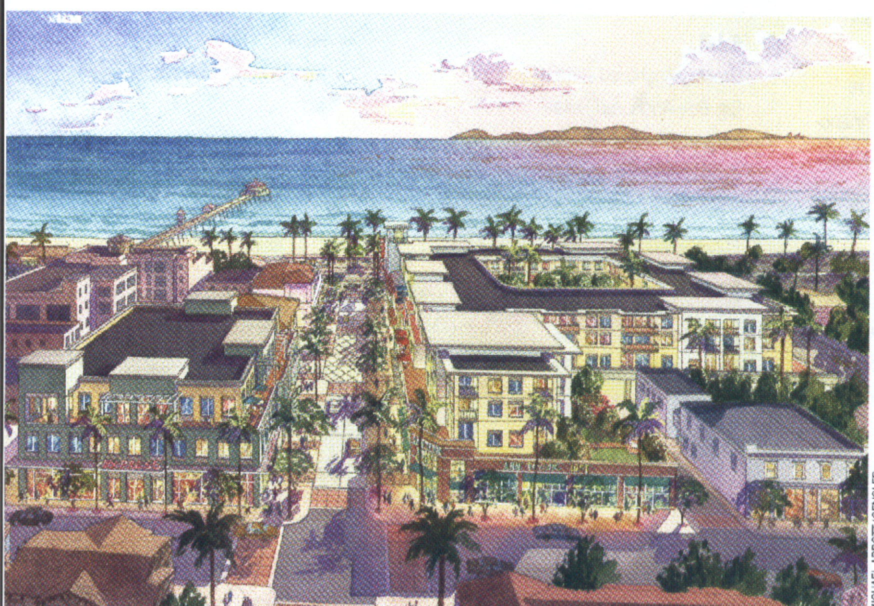
Borko also cites the placement of sports facilities in neighborhoods as another nontraditional anchor for mixed-use districts. Though such an approach is not widespread, and, the verdict is not yet in, there is much to consider. Projects such as the Brooklyn Arena—Forest City Ratner's Frank Gehry–designed home for the National Basketball Association's Nets—will be an important case study, if built. The 800,000-square-foot Brooklyn Arena will be the focal point of the Brooklyn Atlantic Yards, an urban complex of housing, commercial, and retail space developed as a single project.

More likely along the sports-facility-as-mixed-use-anchor lines is the precedent being set by Los Angeles's Staples Center, whereby a single large-scale, high-profile development spurs other developers to action nearby. The downtown arena is located in a formerly derelict part of downtown Los Angeles. Conceived of as a retail and entertainment development, Staples Center includes a 20,000-seat arena, a 7,000-seat music hall, a 3,000-seat banquet hall, and a 2,000-person club. It has been the anchor for loft housing, and some commercial office space, in adaptive use projects and new construction immediately surrounding the project and beyond. With over 220 event days per year, the arena is the catalyst behind Anschutz Entertainment Group's nearly $1 billion proposal for an adjacent hotel and entertainment center. Mountjoy notes, however, that arenas are more of a big city phenomenon and less applicable to the majority of cases. He believes smaller recreational venues, like pay-as-you-go ice rinks, are more ubiquitous and fit well into smaller town centers.

There are many mixed-use developments around the country and, indeed, throughout the world, both in the pipeline and already completed. A sampling of some of these projects shows the variations in scope, uses, and geographical location.

Owings Mills Town Center, Owings Mills, Maryland. Built at the end of the Baltimore Metro subway in Owings Mills, Maryland, the development of Owings Mills Town Center by David S. Brown Enterprises, designed by Brown Craig Turner Architects, and scheduled to commence construction this year, will include 325,000 square feet of retail space, 30,000 square feet of restaurants, 350 residential units, 350,000 square feet of office space, a 250-room hotel, and a 120,000-square-foot public/civic building. Located near a major regional mall, the approximately 1 million-square-foot development is positioned to help improve the mall by better connecting it to its community. An above-ground Metro Parking structure provides parking for the entire development, and incorporates ground-floor retail.

The Strand, Huntington Beach, California. Hollywood, California–based CIM Group retained Gensler to plan and design a mixed-use development on the Pacific Coast Highway in the heart of Huntington Beach. Centered on a redeveloped retail street—the Strand, which acts as the spine of the development—a pedestrian plaza, and its connection to the retail street, the project is intended to establish a vibrant, street-oriented, retail-based environment that is a natural extension of the existing downtown. Using the retail street as the anchor, the project consists of 120,000 square feet of retail and restaurants on two levels, a 40,000-square-foot specialty market, loft-style office space, and a three-story, 120-room hotel over 360 spaces of underground parking.



MICHAEL ABBOTT/GENSLER

Using the main retail street as the anchor, the Strand at Huntington Beach, California, includes 120,000 square feet of retail space, restaurants, and loft-style office space to create an extension of the existing downtown area.

Park Place at Bay Meadows, San Mateo, California. Once the practice track and stables for the racetrack where Seabiscuit ran, Park Place at Bay Meadows is a unique redevelopment project—an example of urban strategies being brought to a maturing suburban environment. It combines retail, residential, office, and a fitness club vertically layered to create a pedestrian-friendly environment. Park Place employs local vernacular in four Spanish Monterey–style buildings, two to four stories high. Located 20 miles south of San Francisco, the development is focused on a linear town square—the Creek Park running the length of Park Place—which includes amenities such as an interactive fountain, plazas, and tree-shaded seating areas. A unifying arcade enhances the pedestrian experience and serves as the outdoor extension of restaurants and cafés. The retail tenant mix, upscale by design, is anchored by Whole Foods Market. Above the retail are live/work condominium units, office tenants, and the San Mateo Public Library. With its mixed-use nature, integration into the community, and proximity to both north-south and east-west freeways, this development simultaneously serves as a local resource, within easy walking distance of adjacent offices and housing; and as a regional destination for shopping, gourmet dining, fitness centers, and beauty salons.

The Glen, Glenview, Illinois. Formerly the Glenview Air Station, the Glen Town Center is a 1 million-square-foot, mixed-use development on approximately 45 acres in the center of the Glen redevelopment plan. Developed by San Diego–based Oliver McMillian, the project follows a redevelopment plan that calls for a mixed-use retail center at the original Hangar One location to serve both as a community gathering place and an upscale retail experience. A definitive focus on the street creates a pedestrian-oriented district that supports a variety of uses. The centerpiece, Hangar One, is partially restored to house a museum, a bookstore, and other retail uses. Retail anchors include a Von Maur department store and a Galleons Sporting Goods. Housing components include stand-alone for-sale housing on each end of the town center, as well as apartment units above retail. Public participation included bond financing for the parking decks by the city of Glenview. The project also adheres to the character and needs of the overall North Shore area and the village of Glenview.

Mixed-use development is not a new phenomenon. However, the genesis of mixed use comes out of meeting the needs of multiple users and integrating existing communities to build better places. The idea of developing true live/work/play environments is alive and well, and the products are getting better and better. ■

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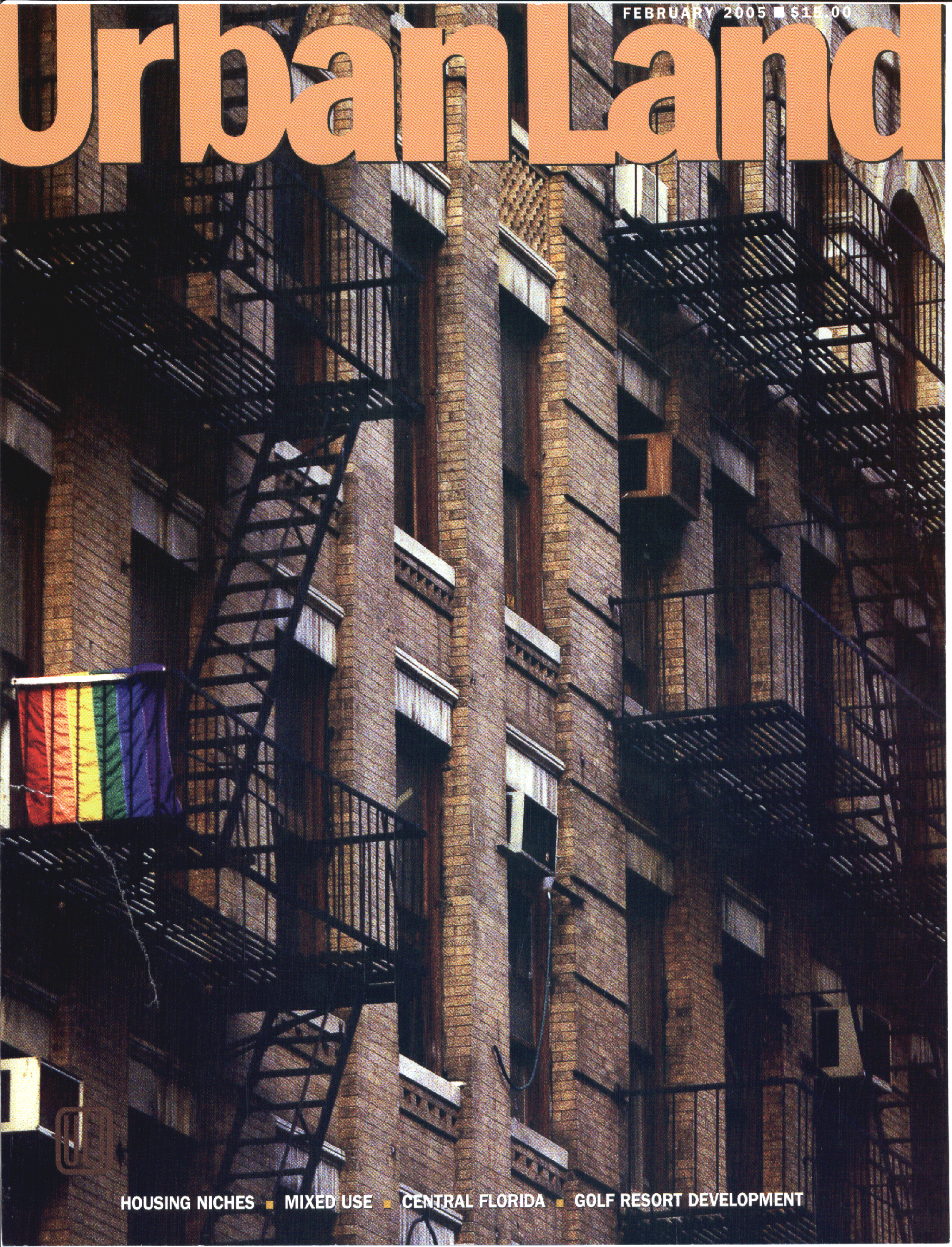

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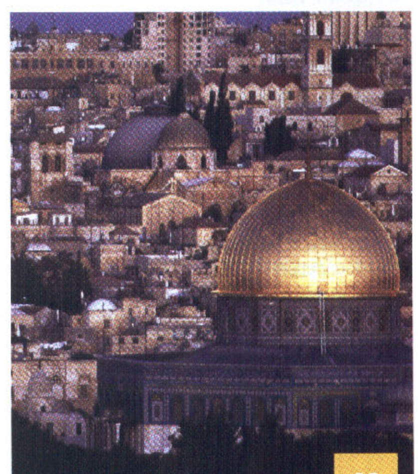

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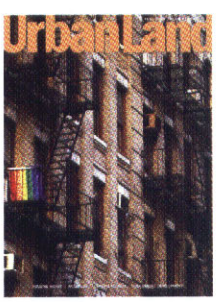

ON THE COVER: Chelsea area of Manhattan.

Photo: Corbis

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