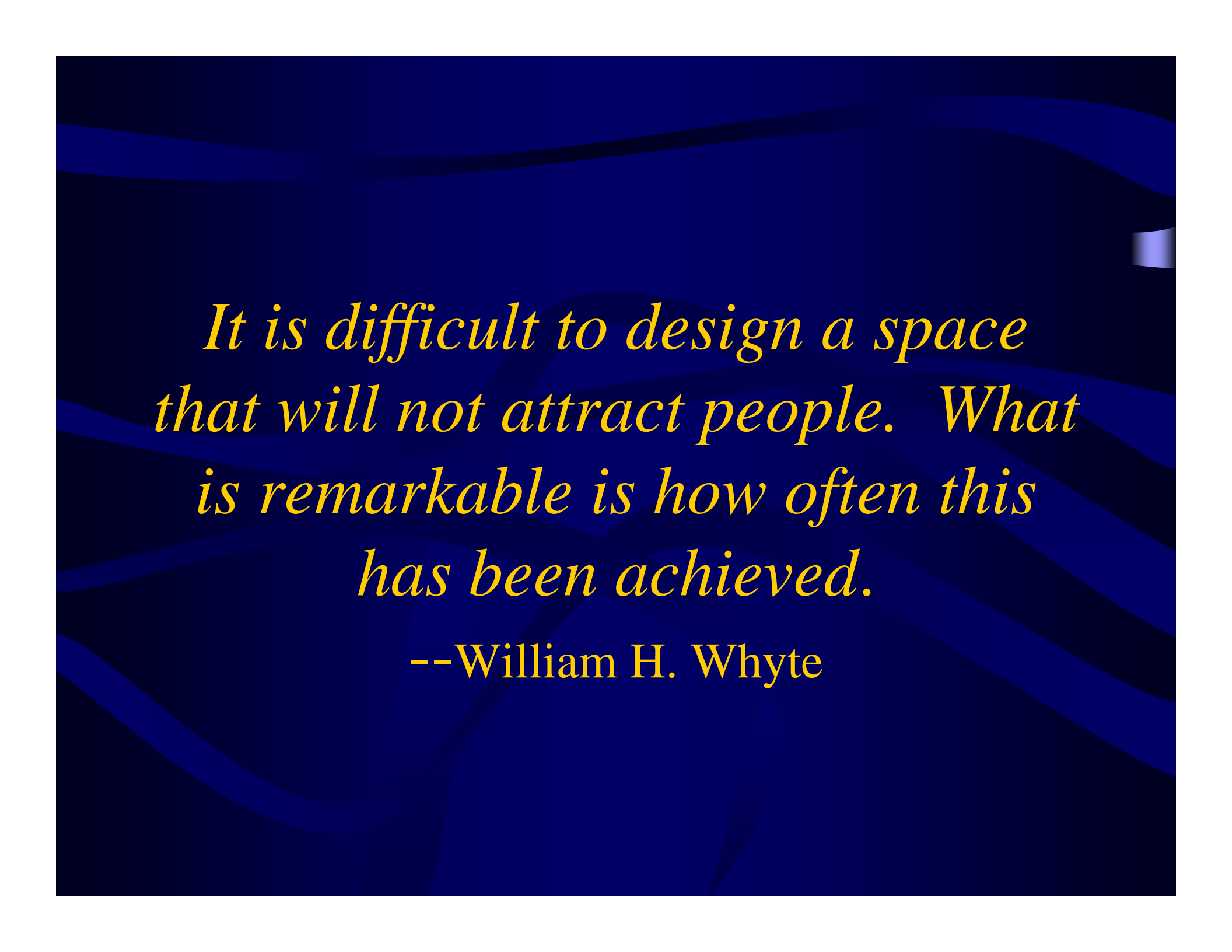


Infill Development: The Developer's Perspective



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*It is difficult to design a space
that will not attract people. What
is remarkable is how often this
has been achieved.*

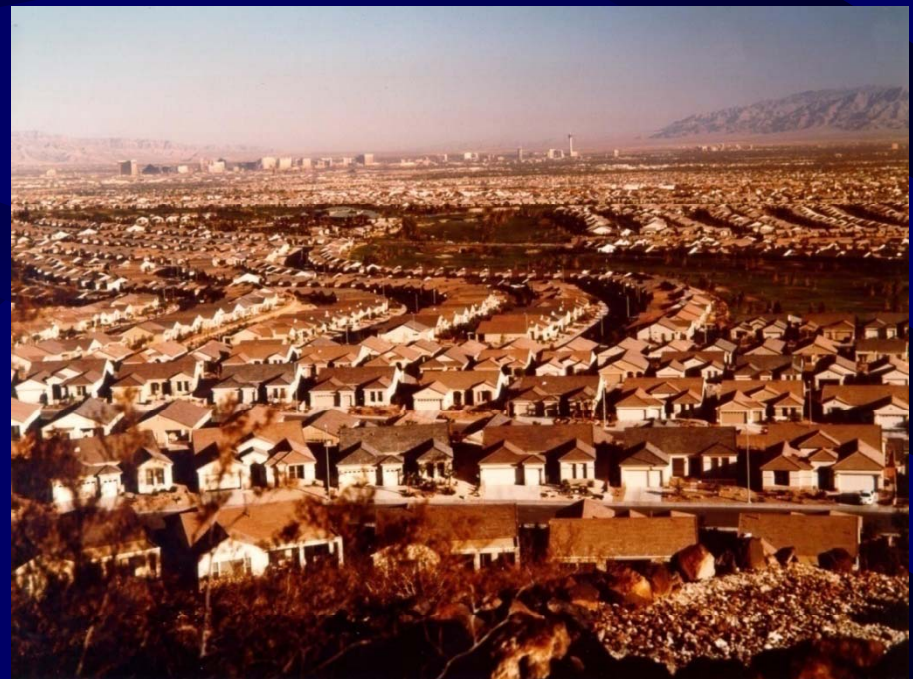
--William H. Whyte


Loss of Village...

- Then



- Now





We shape our buildings, and
thereafter, our buildings
shape us.

--Winston Churchill

The Infill Development Opportunity

- District orientation
- Existing infrastructure
- Cheaper utility/service costs
- Compact development
- Pedestrian/bike priority
- Potential mix of uses
- Potential transit service
- Usually higher rents







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Getting the right development
isn't as easy as it looks....

Infill Depends on Private Sector Developers



- Public sector does visions, plans, regulations
- Private sector finances and actually constructs buildings



But developers are wary....

Gap between Demand and Supply



- 30+% of housing demand for denser, walkable, mixed-use communities
- <2% of new housing starts in this category

What we Know about Developers

- Specialize in different types of real estate
- Risk takers
- Self-motivated
- Healthy egos
- Rich (?)



Developers are only Middlemen



- Developers are idea people/project managers
- They figure out what the market wants, and deliver it to them
- Small developers use money from family and friends
- Most development money comes from institutional investors
- The project *must* show profit

Development Economics

Project Profit = Project Value – Project Cost

Project Value: Lease Income x “Risk Multiple”
(Lease Income/Capitalization Rate)

Project Cost: Hard costs (construction) +
Soft costs (design, financing, OH) +
Land cost

Development Economics

Project Yield – Project Profit / Cash Investment
(15-25+%)

Keys to high-yield development:

- Maximize profit
- OPM

Developers See Projects in 3 Phases:

1. Predevelopment
2. Development
3. Stabilization

Predevelopment Stage: Developer Cash/Equity

- Match site and use
 - (market studies, traffic studies, brokers)
- Get control of land
 - (lawyers, brokers)
- Get commitment from user/spec
 - (lawyers, brokers, designers)
- Get entitlements/zoning
 - (designers, engineers, lobbyists, attorneys, PR)
- Due diligence/buy ground
 - (attorneys, engineers)
- Secure financing
 - (financial analysts, attorneys, loan fees)

Development Stage: Debt Financing

- Design Project
 - (architects,engineers)
- Obtain Site Review approval from City
 - (architects, engineers, lobbyists)
- Construct Project
 - (contractors, architects, engineers)
- Market project
 - (advertising, PR, philanthropy)
- Lease project
 - (brokers, attorneys)

Stabilization Stage: Payback

- Manage the project
 - (property managers, attorneys, operating expenses)
- Repay debt
- Sell project
 - (attorneys, brokers)
- Realize profit!!

Single Tenant, Single Use, Private Building



- Single family residence
- Single user industrial
- Single user office
- Lowest complexity
- 9 months-2 years

Multi-Tenant, Single Use, Private



- Apartment building
- Office building
- More tenants to secure—more complex
- 2-3 years

Multi-Tenant, Multi-Use, Private



- First floor retail with residential/office above
- Different types of leasing, different types of construction, atypical zoning
- 2-5 years

Multi-Tenant, Multi-Use, Public-Private Financing



- Office/residential over retail
- Public benefit such as affordable housing, historic preservation
- Public process, special requirements for “fair return” on public monies
- 3-7 years

Multi-Tenant, Multi-Use, Public-Private Financing, Public Landowner and/or Tenant



- Development such as residential/office over civic use such as transit, city facilities
- More public design, security, leasing complexities
- 3-10+ years



Why would a developer bother???

Infill Value Sources

- Opens new sites for development
- Higher rents/revenues—location/product amenity
- Higher density—more revenue
- Less/shared parking—reduced expense
- Easier entitlements
- Public investment/subsidy

(Strategic Economics 2008)

Will Infill Work Here??

Acid Test:

- Common Vision
- Market Demand
- Land
- Leadership



Acid Test 1: Common Vision

- Consensus vision in place
- Business support?
- Community process at some level
- Zoning in place, if possible



Acid Test 2: Market

- Are rents high enough to pay for development costs associated with infill?
- Can you get a tenant/user for this location?
- Overlooked submarket?
- Crisis of demand or crisis of supply?



Acid Test 3: Land

- Can you get control of enough land to build an economic project?
- Can you buy land at a price the rents can support?
(Land vs. tenants paradox)



Acid Test 4: Leadership

- “Champions” that will bond, trust, and collaborate for the vision
- Champions change as project matures
- All three sectors essential



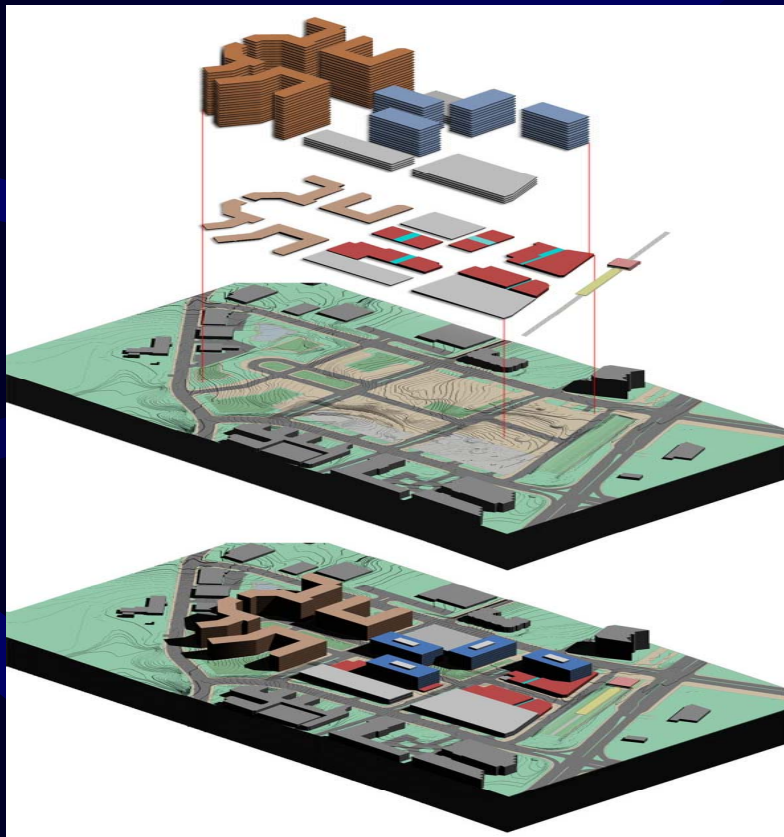
Development Champions

- Role of the Public Sector
 - Work with community to set long term vision
 - Identify priority development areas
 - Implement meaningful entitlements/incentives
 - Regulate design over use
- Role of the Private Sector
 - Bring capital and expertise to implement vision
 - Make reasonable profit in short term

Development Champions

- Role of the Not For Profit Sector
 - Call the question
 - Convene the players
 - Initiate thoughtful planning
 - Educate the community
 - Insist on good design
 - Advocate for good projects
 - Support elected officials

Infill Lessons Learned



- “Infill” relates to location, not the product
- Prime locations are the first infill targets
- Matching product and location is key
- A clear community vision/plan is essential

Infill Lessons Learned



Often competing objectives among:

- Local Jurisdiction
- Developer
- Neighborhood
- School District
- State DOT

Infill Lessons Learned



- Parking drives the economics and design of the project
- Land assembly is often the deal-breaker
- A little density usually helps the numbers work

Infill Lessons Learned

- Use infill to leverage existing assets, create critical mass and distinctive “places”
- Public entities now have to step forward to guide cohesive districts/places
- Mixed-use “places” usually require public investment—can’t afford placemaking and regional costs



Infill Lessons Learned

- Infill on the periphery is more transformational than in the city core
- But it usually takes longer to build critical mass



Infill Lessons Learned



- Suburban infill's biggest challenges:
 - Inadequate infrastructure (utilities, roads)
 - No local street grid
 - Citizen fear of density (traffic)
 - Suburban parking requirements

Common Public Sector Mistakes

- Thinking infill will happen on its own—especially in moderate income neighborhoods.
- Not setting a strong vision
- Not advocating for the project
- Making greenfield development cheaper/easier than infill



Common Public Sector Mistakes

- Not being prepared to invest in project infrastructure
- Requiring retail on every street
- Requiring all vertical mixed-use
- Confusing height and density
- Requiring too much parking

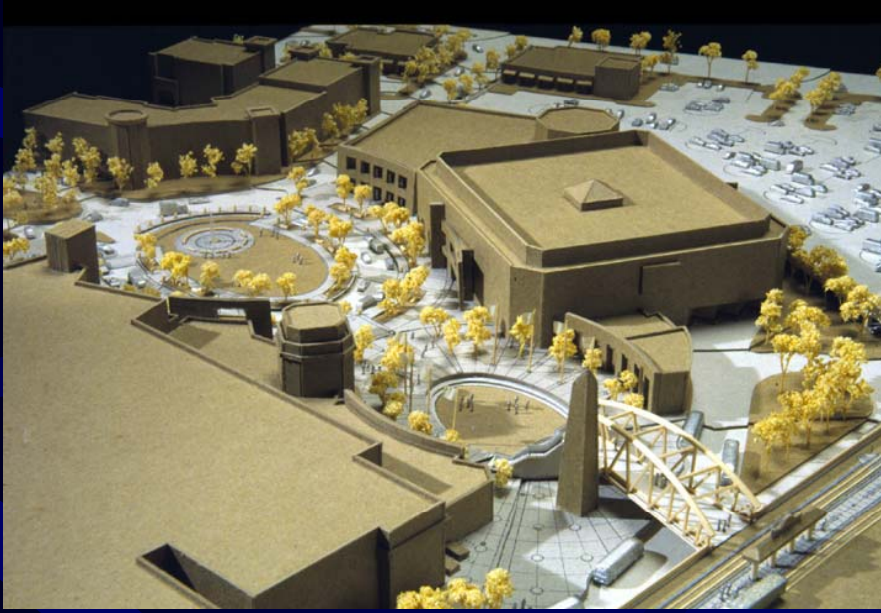


Common Public Sector Mistakes

- Worrying more about land use than land form
- Not setting priority development areas
- Changing the process
- Not hiring development expertise
- Investing in the wrong developer



What Cities Can Do



- Laser focus on priority areas
- Have a clear vision of what you want, and what you'll do to get it
- Know the market
- Do the hard work with the community *first*
- Have zoning in place
- Have sophisticated development skills
- Have a predictable process
- Be willing to invest

What Developers Can Do

- Pick a good location
- Get the land
- Do it better, if smaller
- Phase it if possible
- Budget extra time
- Buy enough equity
- Respect the City plan
- Find a public sector champion
- Pay for a likeable, trustworthy representative



LET'S GO !!



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