

Wharton Real Estate Review

Volume II

Number 2

Fall 1998

The Wharton School

University of Pennsylvania

DEVELOPMENT DYNAMICS

Density and a well-integrated mix of land uses in master-planned communities provide development efficiency and flexibility.

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Density and a well-integrated mix of land uses are important principles of New Urbanism (NU), also known as traditional neighborhood development, that can lead to significant development advantages in new planned communities. Yet the potential advantages and disadvantages of NU remain largely misunderstood, not only by experienced builders, developers and lenders, but also by many advocates. The long-term value enhancement that is often at the core of the investment strategy of NU is antithetical to the trend toward standardization and securitization, in which the thinking on the debt side can be aggressively short term. Building the long-term residual value associated with NU requires, among other things, a long term, which is one thing for which many financing sources currently have no patience. Master-planned communities have always been difficult to finance, as large developments lack a clear, near-term exit strategy at competitive rates of return.

A greater understanding of NU would help investors and lenders make informed decisions. The advantages of NU can be simply summarized: Density + Diversity = Efficiency + Flexibility. Density carries negative connotations for many citizens and planning officials. Yet density can be a virtue, creating the sorts of places that the public appreciates. Many of our most cherished historic tourist destinations were built at relatively high densities: Annapolis, Savannah, Charleston, New Orleans. However, to be a virtue, density must be responsive not only to market fundamentals, but also to location, climate, topography and cultural heritage. Above all, density must be combined with a well-integrated mix of uses, building types, housing types, and lot sizes.

One of the best examples of an artful blend of housing types is a 1.4-acre block of a new planned community, Kentlands in Gaithersburg, Maryland. The block includes 21 dwelling units: a few small accessory apartments at monthly rents between \$750 and \$900, rowhouses that sold for approximately \$250,000, and large detached houses that sold for up to \$500,000. The block's net density of 15 units to the acre is offset by alley-loaded parking and a location on one of the Kentlands town greens.

DEVELOPMENT ADVANTAGES

A mixture of house types and market segments is one of the hallmarks of a well-executed NU property. The combination of density and diversity creates a number of development advantages: lower land cost per unit; lower infrastructure cost per unit; lower first-phase infrastructure cost; greater development flexibility; and lower costs for public services.

Lower land cost per unit

Since no buffers are required between housing segments, the close proximity of different residential types leads to more efficient land yields. In NU plans there are no collector roads without developable frontage; for that reason the street network also contributes to the lower land cost per unit.

Lower infrastructure cost per unit

Including tree-planting strips, sidewalks and alleyways, a NU community can have higher infrastructure cost per linear foot of street than the typical conventional subdivision. However, due to the higher density, the cost per dwelling unit is actually lower. In a study of costs conducted for the Canada Mortgage and Housing Corporation, a portion of Barrhaven, a master-planned community near Ottawa, was redesigned using NU principles (Essiambre-Phillips-Desjardins Associates Ltd. et al., *Conventional and Alternative Development Patterns; Phase I: Infrastructure Costs*, Canada Mortgage and Housing Corporation, 1997). The higher total infrastructure cost of the new plan was more than offset by the significantly higher unit yield, and resulted in a 24 percent lower infrastructure cost per dwelling unit.

Lower first-phase infrastructure cost

A common perception is that NU properties require heavy up-front costs. Press accounts typically focus on the amenities that contribute to a “sense of community,” but ignore the fact that these amenities are common to most master-planned communities. In fact, first-phase infrastructure cost can be lower in an NU master-planned community. Conventional communities usually require the creation of entire pods and collector roads. In the first phase of an NU development, the only investment required is the completion of both sides of a single street. This street serves a variety of housing types in close proximity, perhaps including a small formal civic space such as a green or plaza. Not only are initial infrastructure costs reduced, but the virtue of density is demonstrated at the same time. Thus the street itself functions as an amenity.

Greater development flexibility

Optimally designed streets and blocks can accommodate a range of housing types with the same lot depth, from small apartment buildings and rowhouses to low density,

detached houses. If market demand shifts, housing types on any given street can shift in response without the need for elaborate changes. Conventional master-planned communities are based on separation of housing types in separate development “pods,” with road layouts specific to each type of pod. Changing just a portion of a pod is difficult. However, when blocks are designed with common lot depths, changes in market preferences can be accommodated simply by adjusting lot widths. For example, the lots surrounding Nursery Park at Harbor Town in Memphis underwent just such a transition. The relatively large lots surrounding the park were reduced in size when the developer realized that smaller lots were not only marketable but preferred by a number of buyers; utility lines were ripped out to accommodate the larger number of lots. The net gain justified the extra expense. Even though the smaller lots individually had a lower value than the larger ones they replaced, their aggregate value was greater after the replatting. A similar development flexibility extends to buildings. For example, the “mansion” prototype—based on buildings that have made up the commercial fabric of American small towns—is often used in NU plans to accommodate a wide range of uses on a single lot type. One NU prototype is three floors with a total of 7,500 square feet that can be a small office building, office or housing over retail, or a small bed-and-breakfast inn. The essential point is that buildings are strictly regulated in form, but very flexible in use. They are an increment of development that the smallest development entities can easily manage, yet each prototype building supports the quality and character of the downtown fabric. Of course, flexible zoning and land-use regulations are required.

Lower costs for public services

The Canada Mortgage and Housing Corporation study examined life-cycle costs over a 75-year period (Hemson Consulting Ltd., *Conventional and Alternative Development Patterns; Phase II: Municipal Revenues*. Canada Mortgage and Housing Corporation, 1997). The public sector costs relating to non-residential uses were 48 percent lower in the NU plan compared to the conventional plan, with costs for residential uses 5 percent lower. The most significant savings related to roads, stormwater management, and water distribution. However, the study found that the NU plan was not always more efficient. For example, the cost of snow clearing was projected to be nearly five times higher in the NU plan because of the more numerous intersections

THE REVENUE SIDE

Although the cost impact of density, diversity, efficiency and flexibility is significant, NU developments can have an even greater impact on revenue. Analysis of several new communities that have generated sufficient performance data suggests three inter-related market advantages of a well-executed NU development: a housing value premium; a higher, long-term value for income property; and a location premium.

Housing value premium

A well-designed NU landplan can add value to residential development, either through unit price premiums, increased sales paces, or some combination of the two. A recent

study of 1,850 sales in the Kentlands market area attributed a premium of approximately 12-13 percent of the purchase price of single-family houses in Kentlands directly to NU principles (C. Tu & M. Eppli. *Valuing the New Urbanism: The Case of Kentlands*, 1998). The analysis used a hedonic pricing model in which size, construction quality and other variables were held constant. It identified a \$24,000 to \$30,000 price premium for Kentlands houses compared to the houses located in nearby conventionally designed communities. At Seaside—the NU resort village on the Florida panhandle—the annual price escalation of the various lot types ranges from 9 percent for waterfront lots to 87 percent for interior lots. The market value of the waterfront lots was widely recognized at the outset. However, the value of the interior lots was created solely through the quality of the built environment. A 1982-1997 comparison of Seaside resales with an adjacent conventionally-planned property, Seagrove Beach, found an average annual appreciation rate of 40.4 percent for Seaside lots compared to 26.0 percent for Seagrove lots, and an average annual appreciation rate of 20.5 percent for Seaside houses compared to 17.9 percent for Seagrove houses. Seaside buyers have reaped similar rewards, with same-house resales showing a 20 percent annual appreciation and same-lot resales appreciating at a 40 percent annual rate.

The NU premium can add to land value. For example, the average 12,000-square-foot lots at Newport near Beaufort, South Carolina are half the size of typical lots in the area. Yet Newport's waterfront lots have sold for an average of \$10.10 per square foot, compared to \$3.77 per square foot for waterfront lots at Cottage Farm, a comparable, adjacent property. Interior lots at Newport sold for an average of \$3.36 per square foot, compared to \$1.77 per square foot for interior lots at Cottage Farm. Revenue per net acre is 84 percent higher at Newport, at \$193,000 compared with \$105,000 at Cottage Farm.

Higher long-term value for income property

A well-designed environment enhances the value of all income property. Once established, retail and office uses increase in value, benefiting from the synergy of uses. Institutional investors are beginning to target assets in locations that take advantage of this synergy. Decades of investment experience has shown that frequently a stand-alone "A"-quality apartment or retail property slips to "B" and then to "C," as the property ages and new development moves away. However, according to *Emerging Trends in Real Estate 1998* (Equitable Real Estate Investment Management, Inc., & Real Estate Research Corporation), real estate assets in mixed-use central business districts of healthy 24-hour cities are now considered to be less risky than single-use assets in their suburbs. Assets within NU communities are similarly expected to retain value.

Location premium

The residents of existing NU communities reflect the long-standing American dynamic of selecting neighborhood first and house second. ERE Yarmouth (now Lend Lease Real Estate Investments), the nation's largest manager of real estate for pension funds, has found that buyers are willing to pay more for houses in NU communities, explaining that

“It’s the age-old concept of living in a town setting, which suddenly has renewed attraction for an increasing number of American suburb dwellers.”

In conclusion, to be effective, NU development must be approached as pragmatically as any real estate venture. Once the advantages inherent in the form are better understood by developers and investors the New Urbanism will move more rapidly from the margins to the mainstream.

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