

# Shopping Center Business

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### Mastering Mixed-Use

What exactly is mixed-use? Investigating the industry's most ambiguous label yields a lot of opinions and few answers.

**F**rom massive projects like Victory Park in Dallas and Atlantic Station in Atlanta, to smaller projects like Highland Row in Memphis, Tennessee, mixed-use development is everywhere these days. But what defines mixed-use? Is it a shopping center with 10,000 square feet of office above? Is it a lifestyle center surrounded by power retail and apartments? *Shopping Center Business* asked a number of expert developers across the country to share their opinions of what creates a mixed-use project and what parameters they use in deciding whether a project is mixed-use.

We also wanted to know why everyone is developing mixed-use. Where is the demand coming from? Who is driving the industry to develop mixed-use properties? We've also seen a trend of mixed-use being developed in the suburbs, where strip centers and sprawl traditionally have ruled. Why are developers choosing suburban and rural areas to build mixed-use vertical projects?

#### **Mixed-use vs. Multi-use**

There has been a debate surfacing in the industry for a while about mixed-use projects versus multi-use projects. Some developers feel that many are inappropriately calling their projects mixed-use.

"I've heard mixed-use described as an apartment building with a dry cleaners and a café at the bottom," says Brian Jones, CEO of Forest City Commercial Development, Western Region. "And I've heard mixed-use used in reference to huge communities where you have housing and other uses. It is a misused name."

Jones' comment leads to the root of the debate: any project with more than one use can seemingly be termed mixed-use by a developer. Along with the term "lifestyle center," mixed-use is the industry's other ambiguous term.

"A true mixed-use application by our definition is multiple uses in the same building," says Craig Kaser, president of TerreMark Partners, LLC, based in Atlanta. His thoughts are echoed by many developers, who believe that projects that have many different property types in separate buildings should be termed "multi-use." If that's the case, then a center with an adjacent hotel or an apartment building should be multi-use, not mixed-use, despite whether a single developer controls the land.

"Multi-use would be more horizontal in nature," says Jones. "You have a number of uses in a planned project. As an example, I would describe our Victoria Gardens project, where we have a number of uses within one plan, as a multi-use. Our Westminster project, where we have residential, lifestyle and power retail and office space, is a multi-use. It is a meaningful plan that incorporates all those uses. There are a lot of multi-use projects underway."

Most of the developers SCB talked to agree. Overall, they also agreed that retail will create the draw, but residential and office space also must have a demand in the market to make the project viable. They also thought that mixed-use should be vertical by nature and that each use must serve its purpose independently, yet work together.

“A project is mixed-use if it has two or more uses that are both meaningful in scale and well thought out as independent parts,” says Terry Montesi, CEO of Trademark Properties. “I don’t consider a large lifestyle center with 20,000 to 30,000 square feet of incidental, not particularly well executed office or residential space to be real mixed-use. It is only pasted on to give the illusion of mixed-use.”

For Poag & McEwen, one of the largest developers of lifestyle centers in the U.S. who has also been developing mixed-use projects, mixed-use also takes on a similar meaning.

“We consider having multiple uses in different buildings to be multi-use,” says Joshua Poag, CFO and executive vice president of Poag and McEwen. “This has been the traditional way of development over the last 50 years. You develop a mall or shopping center, next to that you have a neighborhood of homes and sometimes you have an office park nearby. By our definition, mixed-use is vertically integrated.”

There does seem to be one exception to the rule that mixed-use must be vertical, that some developers take. That is, if there are multiple uses in separate buildings, they must be located within a walkable environment. This definition would still exclude shopping centers with hotels or power centers on the periphery where the shopper is more likely to drive. It would include, however, communities where residents of an apartment building are likely to walk half a block to the retail component.

“In a walkable community, having uses in separate buildings does not break up the mix, as it were, but rather contributes to the overall diversity of the project,” says John Crossman & Company.

“Our position is that the components must be walkable to be considered mixed-use,” adds Randy Holcombe, executive vice president of Allegiance Development, developer of Rayzor Ranch in Denton, Texas.

“I don’t believe that multiple uses have to be in the same building,” says Gary Safady, managing partner of O&S Holdings, which is developing three projects in Texas, Illinois and Alabama. “What is important is that there is synergy between the uses and that each component complement each other. It is important that there is the opportunity to create cross traffic and sales.”

But the real difference, say others, is the way a project is developed. It is being developed as a single project, or multiple projects developed on one piece of land?

“There is a very distinct difference between mixed-use and multi-use,” says Clayton McCaffery, vice president of Chicago-based McCaffery Interests, developers of the award winning mixed-use project The Market Common, Clarendon, in Arlington, Virginia. “A mixed-use project requires the skill of the developer to thoughtfully and creatively work with investors, retailers, residents and office occupants to understand and feel comfortable with the integration of each party’s interests and demands into a single cohesive project.”

## **How Many Uses?**

Most developers SCB interviewed generally agreed with the definition that a mixed-use project must have three or more significant uses and physical integration that create a single plan. Some developers narrow the number of uses down to two when the project contains multifamily or office and retail. Most developers also agreed that retail was the sector that was a must-have in mixed-use development, with multifamily a close second, followed by hospitality third and office fourth. Most developers did not have a hard formula of percentages that they allocated to each sector when developing mixed-use.

“Percentages are more often dictated by local demand factors,” says Rodney Tucker, CEO of Citation Development, who is developing three mixed-use projects in the Las Vegas market. “Each component should act as a catalyst to support and enhance the complementing adjacent components.”

Retail is generally the most noticeable of the sectors in a mixed-use environment. It is what creates the energy of the project, as well as what mainly attracts outside visitors and makes them feel a part of the project. Office, multifamily and hotel uses must have significant demand to warrant their participation.

“Retail is what adds vitality and traffic to an otherwise staid environment,” says Poag. “Beyond the ground floor, either office or residential will work, as long as the uses are justified, independent of the project being mixed-use. In a more traditional setting, a roughly 3-to-1 office or residential to retail seems to work in order to give the project proper scale and density. Obviously, in a CBD, your ratios may become more skewed as your density increases.”

But the higher the number of uses, the larger the challenge is in creating a successful project, say some other developers.

“For every use that you introduce, the complexities of the development increase dramatically,” says Dougall McCorkle, vice president of commercial properties for The Lutgert Companies. “Each use will often have opposing needs. Office space and retailers both need convenient parking, for example, but parking for office space is static while retailers need those spaces to turn over quickly. Non-retail uses need ground floor access and visibility, but it has to be done in a manner that it doesn’t create dead zones in the retail landscape. Also, restaurants and residential units obviously have opposing needs when it comes to noise and energy.”

A lot of mixed-use projects are driven by developers whose history is in retail development, though most of the developers SCB interviewed have altered their practice to focus specifically on mixed-use properties. Some retail developers have brought partners in to develop other uses in a center.

“If you bring in co-developers to develop certain uses of the project, then a whole new set of complications arise,” says McCorkle. “Factoring in the inevitable financing requirements from the lender in regards to the pre-leasing office versus retail space and pre-selling condos really takes a lot of skill, patience and, perhaps, luck to make the stars and moon align enough to pull it all off.”

## **Why Is Everyone Developing Mixed-Use?**

The reason why every developer is developing mixed-use isn’t because every consumer wants to live, shop and work in the same place. All developers concede that no

amount of multifamily space in a project is going to support the retail alone. They must draw from the greater market. Retail and restaurants are the draw that pulls consumers to mixed-use projects. Thus, the market must first have a demand for the additional retail that the center will provide. Consumer attraction to the product type – mainly because it is unique – is another reason. The pressure on developers from communities to lessen sprawl is also a factor.

“The driving factor for mixed-use projects is actually a combination of factors: rising land costs, lengthy commute times, increasing fuel costs, less spare time, the ‘hassle factor,’ and the need for a place with which people can identify and call their own,” says Woody Mann, Jr., president of Vista Equities Group.

Consumers are cited as a chief driving force, and developers are responding to their wants. As lifestyles change, so do consumers needs. Currently, the baby boomers and Generation Y have been cited as the most influential factors in the lifestyle retail and mixed-use development trends.

“Consumers across the nation have gotten a sweet taste of mixed-use developments and have a craving for more,” says McCorkle. “There is a growing knee-jerk reaction to sprawling suburbia. People want to reconnect with the urban feel of a downtown, especially as they become empty-nesters. It just has to be done in a manner that there’s a compromise between lifestyles.”

As consumers move from suburbs back to the cities, they are moving away from their traditional shopping nodes, says Poag.

“In order to service this growing trend of moving back to the urban core, you need to find sites that are typically expensive and small,” he says. “In order to make the numbers work you need to go vertical to spread the land, site and infrastructure costs over more square footage.”

Consumers aren’t the only ones changing their attitudes. Some developers have a philosophy that the vertical nature of mixed-use development is more responsible to the land and to the communities where they are developing. They are preventing sprawl and, at the same time, giving the community a place that it needs with the retailers, restaurants and amenities that the residents want.

“Mixed-use development is a more socially responsible, holistic approach than traditional, single-use development,” says Kaser.

JTS Realty Services, which is developing a second phase of Perkins Row, a mixed-use center in Baton Rouge, Louisiana, also sees mixed-use as a plus to the community.

“Mixed-use projects are less invasive to the suburban community because of their density,” says Clayton Peterson, development director for JTS. “Mixed-use complements the downtown revitalization trend rather than competing with it.”

“‘Community building’ is the action phrase that best describes the driving factor that perpetuates the continued interest in mixed-use developments,” concludes McCaffery.

### **High-End Feel**

Most mixed-use development has lent itself to lifestyle retail, mainly because the types of communities where the projects are developed have demographics consistent with those of lifestyle retailers. Lifestyle retailers have also been expanding at the same

time that mixed-use projects have been flourishing across the country. There's another reason that developers like to create mixed-use projects with lifestyle components: enhances return on investment.

"The addition of hotels, multifamily housing or office components adds another dimension to a lifestyle center development, attracting consumers for yet another reason," says Robert H. Spratt, Jr., president of Hill Partners. "These additional synergistic uses also help to offset the higher land and construction costs that typically accompany a prime real estate location."

Another characteristic of mixed-use centers is that they are generally upscale. Restaurants and retailers in the developments tend to cater to the high end of the market. Developers say that the nature of the business – high land costs, the costs of construction and the retail rents required to sustain the projects – necessitate upper-end retailers. Also, many agree that residents choosing to live in mixed-use developments do not want to live next to discount retailers and restaurants.

"You don't see too many projects looking to have anything other than a fairly upscale retail component," says McCorkle. "People wouldn't choose to live above something sub-standard or low end. It probably wouldn't be a wise investment. Likewise, office users, if they are driven by locational convenience, prestige probably comes into play. They probably wouldn't choose to locate their prestigious law practice over an off-track betting outlet.

For developers like Poag & McEwen and Hill Partners, whose history is in lifestyle retail, upscale retail is important to make the centers successful in their eyes.

"We feel the retail component must include high-quality retailers," says Poag. "Exactly who those retailers are will completely depend on the surrounding demographics and the competition close by."

"The difference in shoppers is simple: lifestyle center shoppers come for the reason, not the season," says Spratt. "The results are higher per visit transactions than that of a traditional retail mall. In the process, retailers built loyalty due to the full integration of the overall property into the shopper's life, by virtue of a more personal approach."

Developers find that the sales per square foot are higher in mixed-use environments because of the projects' attractiveness and differentiation in the market from other projects.

"Mixed-use projects are typically a better experience for retail tenants and residential tenants and owners," says Peterson. "When designed properly, mixed-use retail and residential will generate higher sales per square foot and higher rents. The open-air town center with mixed-use is on the forefront of retail development. Both restaurants and retailers enjoy increased traffic because of project density."

Performance is another driving factor. "We find that when we are able to combine the right use, our project perform considerably better and that translates into a stronger asset and ultimately higher rents," says Jeff Ziegler, executive vice president of retail development for Continental Retail Development.

In smaller markets and areas where the mixed-use project also doubles as a town center, place-making has become more important than the retail mix.

"The key is to create an environment where people want to stop, slow down and be entertained in a comfortable environment that makes them feel good about the world

that they live in,” says Holcombe. “This does not need to be a ‘luxé’ environment, but rather a place that they want to visit time and time again.”

That place-making also allows for the center to be thought of as a place where visitors like to be.

“Real ‘places’ don’t go vacant through long periods of the day,” says Buss. “Sustainability is the driving factor. People are looking for an experience today as much as for a simple purchase. Look at retailers like Build-A-Bear Workshop, Starbucks Coffee and American Girl Place.”

Locating a mixed-use project in a middle market can also breed success, especially if the project creates a draw for surrounding residents.

“We like high-end projects, but our core projects tend to attract middle and upper ends [of the market],” says Crossman. “While ‘high-end’ tends to connote higher dollars, a diverse market is a great thing. It can maximize rents, value and traffic in other ways.”

Diversity is still a goal in high-end centers – not gentrification. “The project should always reach for more upscale, but not push too hard, [which can cause] excessive gentrification,” says Chris Hanessian, senior vice president of University Town Center, Inc., developer of the 1.5 million-square-foot University Town Center in Hyattsville, Maryland. “Some centers may offer employment to low-wage earners who eat and shop at certain retail establishments; other centers may cater to a wealthier clientele. Either can work as long as you strive for diversity, safety and a true mix of uses.”

“We are developing mixed-use projects in affluent, secondary markets that are under-retailed,” says O&S’s Safady. “These markets have the ability to draw from larger areas, similar to super-regional shopping centers.”

Adds Buss, “Long term, mixed-use development is what can make a community special and a great place to live versus being ordinary.”

### **City vs. Suburbs**

Where should mixed-use developments go? The answer is, seemingly, everywhere. Mixed-use projects are being developed in the downtowns of large cities like Dallas and Washington, D.C., to small towns like Willoughby, Ohio, and Malvern, Pennsylvania.

“Mixed-use developments can create town squares or even downtown environments in areas that you may not expect,” says Safady. “Because they provide a multitude of experiences, they become true destinations.”

Central business districts are a natural choice for mixed-use. High land costs in urban areas almost necessitate mixed-use if anything other than office is going to be developed. In Atlanta, Selig Enterprises and Daniel Corporation are creating 12<sup>th</sup> & Midtown, a multi-block mixed-use project that will contain retail, residential, hotel and office uses. In Dallas, phases of the huge Victory Park project are open. And in Brooklyn, New York, Forest City Ratner has Atlantic Yards planned. Middle markets are also seeing mixed-use thrive as well. In Myrtle Beach, South Carolina, McCaffery Interests is developing The Market Common, Myrtle Beach, on the site of a former Air Force base. The 121-acre project will feature 600,000 square feet of retail, 181 luxury rental apartments and 1,441 for-sale townhomes and condominiums. Smaller markets, as well, have their fair share of mixed-use developments underway. TerreMark Partners is developing a 360,000-square-foot mixed-use project that will contain retail, restaurants,

offices and multifamily space in Willoughby, Ohio, called Chagrin River Walk. In Malvern, Pennsylvania, along Philadelphia's Main Line, Philadelphia-based O'Neill Properties is developing a high-end mixed-use project called Worthington.

Suburban areas, in particular, benefit from mixed-use developments because they define the town by giving it a center.

"Suburbia typically lacks any sense of community so the mixed-use development becomes the proxy for the new downtown," says McCorkle.

Tim Murnane, senior vice president and general manager of Opus Northwest, agrees: "Many newer suburban communities are void of town centers and consider live-work-play components of a horizontal mixed-use project a solution," he says. "For example, the downtown/main street design of our Burr Ridge Village Center [in Suburban Chicago] is bringing vitality to a 50-year-old community that has ideal demographics for national lifestyle tenants, retail capacity and available land."

Opus Northwest is also active in the suburban markets of Chino Hills, California (developing Shoppes at Chino Hills), Suwanee, Georgia (developing Suwanee Gateway), and suburban Austin, Texas (developing Hill Country Galleria).

"Depending on the size of the metropolitan area, mixed-use in suburban areas is very important," says Mann of Vista Equities Group, who is developing two mixed-use projects, including LaCenterra and Cinco Ranch in Katy, Texas, a Houston suburb. "If you can offer suburban residents a quality shopping-dining-office-living choice in a more relaxed setting – something they can identify with and call their own – it's a recipe for success."

"Mixed-use projects help to create the New Urbanism feel that is so popular with customers; they create 'clean cities' within the suburbs," adds Holcombe.

As with any mixed-use project, developers feel it is important for the demand for all uses in the project to exist in suburban markets.

"At our project in Pearland, Texas, we are doing roughly 350,000 square feet of retail with about 250 apartments," says Poag. "There is a high demand [in the market] for both retail and residential. Therefore, mixed-use works and is important. If the demand were not there, then it would not be as important."

Hill Partners, which is developing projects in middle markets like Asheville, North Carolina, and Charleston, South Carolina, agrees.

"We are proponents of suburban mixed-use developments where the market demand supports the addition of other uses above retail," says Spratt.

### **Favorites**

Asked what their favorite mixed-use projects in existence were, developers named more projects in suburban areas than in urban areas. One often mentioned answer was Southlake Commons, located in the Dallas-Fort Worth Metroplex. Reston Town Center in suburban Washington, D.C., was another project cited for its office, residential and hotel uses mixed with main street retail. Others included Mizner Park in Boca Raton, Florida, and Kierland Commons in Scottsdale, Arizona. Others pointed to McCaffery's Market Common, Clarendon in Virginia, and OliverMcMillan's The Glen Town Center in Glenview Illinois.

Mixed-use centers in urban areas also fared well. A favorite of the group was Federal Realty Investment Trust's Santana Row, in San Jose, California. Related's Time

Warner Center in New York City and CityPlace in West Palm Beach, Florida, were mentioned, as were Victory Park in Dallas and Water Tower Place in Chicago.