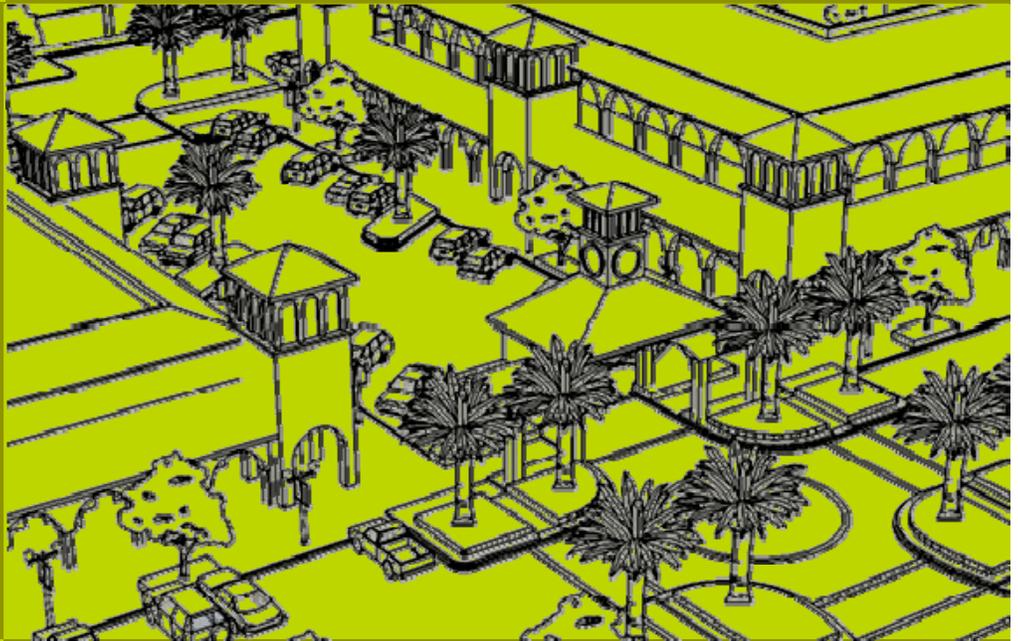


Economic Return on New Urbanism:

A Summary of Focus Group Discussions of Developers and Practitioners of New Urbanism in Central Florida

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Prepared for Orange County Government by Planning Design Group and Florida Economic Advisors

Introduction

"New Urbanism is the most important phenomenon to emerge in American architecture in the post Cold-war era" (Herbert Muschamp, architecture critic for The New York Times). The intent of the New Urbanism movement is to provide an alternative to sprawl by developing walkable, human-scaled communities with well-defined public spaces, a mix of housing types and densities, and the integration of non-residential uses into the community in a pattern of urban development that is more efficient than conventional, or suburban development. While both the tangible and intangible benefits of New Urbanism continue to be evaluated, the challenge to financiers and developers is to create these communities while offering a modern residential and commercial "product" that is competitive with suburban development.

With the development of Celebration in Osceola County, Avalon Park in Orange County, Baldwin Park in the City of Orlando, Northlake Park at Lake Nona and the Horizon West area of Orange County (Lakeside Village and the Village of Bridgewater), New Urbanism, also called Traditional Neighborhood Development or Neo-Traditional Development, has made a significant impact on the development landscape of Central Florida. In addition, New Urbanist principles are incorporated into many redevelopment or infill projects such as Veranda Park at MetroWest and Winter Park Village.

Orange County Government has undertaken this study to gain a better understanding of the challenges related to the cost factors involved in a New Urbanism development. This information will be used by Orange County to direct policy decisions on future development, redevelopment, design standards and other related issues.

In August 2007, Orange County hosted two focus group discussions regarding the Economic Return on New Urbanism. The first meeting was comprised of New Urbanist practitioners including planners, architects, urban designers and transportation experts. The second focus group was primarily comprised of developers and builders with experience in New Urbanist projects. To prepare for the meetings, participants were given a set of questions regarding the

cost and profitability of developing New Urbanism projects in advance. [A summary of the meetings along with transcripts appear in Appendix A].

Orange County also invited architects, planners, landscape architects, developers and other professionals with experience in planning and developing New Urbanism projects to complete a survey to help the County gain a better understanding of the cost and market factors associated with New Urbanist developments in Orange County. There were a total of 31 responses. About half identified themselves as planners and a fifth as land developers. The survey asked specific questions about the profitability of various elements of a New Urbanist development. The consensus of both focus group meetings and the survey was that the combined experiences in New Urbanism were generally positive and profitable. [A summary of the survey results and spreadsheets of the responses appear in Appendix B].

The Orange County Experience

For more than fourteen years, Orange County's Comprehensive Plan has supported the development of New Urbanism communities. Originally adopted in 1993 and implemented in Avalon Park, *Future Land Use Element Objective 1.6* and the corresponding policies provide a basis for support of mixed use development that promotes a more efficient pattern of urban development in the form of Traditional Neighborhood Development or New Urbanism. Also, *Future Land Use Element Goal 6, Objectives 6.1 through 6.7*, and the corresponding policies set forth a development pattern of mixed use "Villages" with an emphasis on interconnected, walkable neighborhoods with well-designed public spaces surrounding a Village Center, were implemented for development in the Horizon West area of Orange County. Orange County is currently applying New Urbanism principles a third time in the Innovation Way area of the southeast section of the County.

In addition to the County's support for such development, there is evidence that well-designed New Urbanist projects minimize deterioration of environmental quality, provide a higher rate of return, and reduce community opposition to higher density development (Gyourko and Rybczynski). Government support, market demand and other proven benefits notwithstanding, New Urbanism remains a complex, frequently misunderstood, and often challenging form of development that comprises only a fraction of the overall development landscape. Conventional development is so entrenched in our culture, regulations, financial institutions and markets that, despite its shortcomings, it remains the norm. The following analysis provides a discussion of some of the challenges and obstacles to developing New Urbanism and offers strategies for encouraging more development of this type.

Financing

A 2000 study commissioned by the Congress for New Urbanism indicates that the perception of greater risks for New Urbanism projects imposes the necessity for high rates of return in order to attract investors (Gyourko and Rybczynski). This higher rate of return translates into increased cost for the developer. However, this issue was not recognized as significant by either the local survey results or the focus group discussions. A possible reason may be revealed in the focus group comments made by Beat Kahli, President and CEO of the Avalon Park Group. The former investment banker experienced difficulties in securing financing nearly a decade ago for the Avalon development in East Orange County. However, due to his subsequent success with the Avalon project, and a better-educated financial community, Mr. Kahli is not encountering similar resistance from financial backers in a currently planned New Urbanism development in Texas. The survey results and focus group discussions also indicate more mature financial institutions that better understand this type of development than what has been reported in the past. Despite these encouraging signs, because risk is a primary cost consideration in financing, the complexities of developing the mixed use center (office, retail, civic) of a New Urbanist development will likely always increase the price of financing when compared to a single use development.

Cost Factors

The differentiation in cost factors between New Urbanism and conventional development as it relates to project location is extremely difficult to quantify. While the literature offers some anecdotal evidence of cost savings in New Urbanism versus conventional development (Gyourko and Rybczynski), overall, the participants in this study disagree with this conclusion. Both the survey and the focus groups recognized the possibility of some line item cost savings due an efficient use of infrastructure; for example, New Urbanism's characteristic narrower streets require less paving and reduced lot size allows each utility line to serve more housing units. However, such cost savings are offset by substantial additional costs in other areas. Most estimates by focus group participants estimate that costs associated with New Urbanism range from 15% to 30% greater than conventional development.

Survey respondents and the focus groups agreed that these additional costs result primarily from enhanced architectural design, increased infrastructure associated with the addition of alleys (paving/drainage), and a greater emphasis on including high quality parks and civic spaces in the community's design. In addition to up-front costs, there are additional operations and maintenance costs associated with some of the amenities. Early in the planning of Baldwin Park, the developers made a commitment to high quality parks and open space that requires a more frequent and more expensive maintenance schedule.

The focus groups emphasized that one of the most difficult cost factors to quantify is the time and effort spent in gaining approval and countering resistance from public works and fire department officials. As pioneers for New Urbanism, developers often face additional costs of a learning curve with the local government. During the construction of the mixed-use Village Center in Baldwin Park, David Pace, founder and CEO of New Broad Street Companies, discussed the construction of a mixed use building where the contractor had to remove and re-install sprinkler systems throughout the apartments located above retail. The original design, though reviewed and approved by the local building department, did not meet code for this type of mixed-use building. Other elevated cost factors mentioned by the focus group were increased soft costs associated with higher design/engineering/legal fees, larger project administration staff, and increased time for design/approval.

Value Factors

Homes in New Urbanism developments typically sell at a premium over homes in comparable conventional developments. Some studies estimate the premium to be between 15% and 20% (Song & Knapp). The Central Florida experience seems to mirror the results found in the research. One of the stated goals of this study is to determine which elements of New Urbanism provide the highest return in dollars invested. In other words, which investments provide the most bang for the buck?

Survey respondents agreed that most of the common elements of a New Urbanist development contributed positively toward the overall profitability of the project. Village Centers and parks/green space were consistently listed as the elements that contribute the most profitability to the projects, while alleys contribute the least.

During the focus group meetings, there was discussion that economic value is derived from the entire form of development rather than any individual elements. It is the sum of the parts that create New Urbanism's sense of place. A study by the director of the Metropolitan Institute at Virginia Tech indicates that there may be no value, or perhaps negative value, in incorporating some New Urbanism elements into a conventional-style development (Lang). Most of the developers in the focus group agree. Their goal is to build total communities, not just typical suburban homes with front porches on smaller lots.

In the focus group meeting, David Pace of New Broad Street Companies, noted that proper execution and attention to the details of New Urbanism are crucial to maximum return on investment. For example, a significant investment is required for the public open space/green space and associated amenities to realize full value. Poorly located or poorly designed open

space is simply a waste of land that fails to return value commensurate with the size of the investment.

While still contributing to the profitability of the project, the survey indicated that the alleys were one element that added the least value. To the extent that fire departments and public works resist small roads and alleys, there is less incentive for developments to utilize this option. Strict association rules that have the effect of limiting architectural diversity were noted to have little economic return. A recommendation from the developers' focus group was to limit the reach of the HOA rules to those things that impact the overall community, without trying to control people's lives.

For the production builder, the cost factors become more critical in the competition for entry-level home buyers. One example provided by Reed Berlinsky of KB Home was the New Urbanist requirement for the first floor to be elevated a minimum of three steps above the finished grade of the sidewalk. This single element adds \$3,000 to \$5,000 to the price of a house, an amount that could make the difference in an entry-level buyer's ability to qualify for a mortgage loan.

Mixed Use

The mixed use component of New Urbanism in the form of a Village Center or Town Center was cited by the focus group as the most critical component to the success of Avalon Park, Baldwin Park and Celebration. In addition to providing an amenity for the residents, it also provides a community identity that is currently lacking in other New Urbanism developments, such as Harmony and North Lake Park at Lake Nona. The developers of Baldwin Park and Avalon Park agreed that the opening of the grocery store within their respective Village Centers was a particularly significant event in the eyes of the residents.

The array of uses, timing and phasing of a mixed use Village Center within a New Urbanist development are often more critical than the design elements. The developers expect the Village Center to serve as an amenity that will sell homes. If it is built too early, or contains an inappropriate mix of uses, a struggling Village Center can affect absorption and potentially devalue the entire community. The same challenge applies to elements that are out of the developer's control, such as construction of schools or regional parks. When land is provided for a school, but that facility is not built at the time of residential construction, the developer has incurred the cost of the land, but receives no premium for the civic use.

In addition, like the residential costs, the cost of constructing retail and office uses that are true to a New Urbanist form is higher than in conventional development. The businesses that

move into a Village Center are subsequently forced to compete with conventional office and retail space that is often at the doorstep to the community, which is offered at lower rates.

Market Factors

Focus group participants agreed that the cost factors, as discussed earlier, necessitate that the housing products offered within New Urbanism projects are generally at the higher end of the price range. In addition, these developments have been built largely during a period of market expansion that makes the higher-priced units associated with New Urbanism easier to sell. As land prices continue to escalate, and with fewer large tracts of land available, it is likely that future New Urbanism projects in Central Florida will be smaller in size and include infill close to the existing developed areas.

One distinct advantage of New Urbanism that was cited by the literature and supported by the survey results and focus groups is the wide range of housing types and styles found within a single development. Though the premium tends to push the price to the upper end of the scale, by offering a wide range of housing options, the New Urbanism developments appeal to a broader market than developments with two or three product offerings. To maintain this advantage, the developers cited the importance of having the flexibility to change product offerings with each phase of development.

Despite higher costs, demand for denser, more walkable residential environments among housing consumers who have sufficient means to exercise choice is expected to grow by approximately 2.5% per year over the remainder of this decade (Myers, et al). This increasing demand helps to maintain the price premium that offsets the additional cost factors. It also provides for higher absorption rates. The developers' focus group generally concurred that both the price premium and the quicker absorption are necessary to the financial success of New Urbanism.

Conclusions

The consensus of the focus group meetings and survey was that the combined experiences in New Urbanism projects were generally positive and profitable. Although both tangible and intangible benefits of New Urbanism developments exist, the development industry is driven by business enterprise (developers, home builders, retailers, banks, investors). As with any such enterprise, the objective is to maximize owner/shareholder profits. The expansion of the New Urbanism movement can only occur if the development industry can manage the costs and risk factors associated with this type of development in a manner that renders it at least as profitable as conventional development.

New Urbanism communities in Central Florida are primarily high-end development projects that command higher prices and rental rates than conventional development in the same market. These projects have also experienced a higher appreciation than the market as a whole. As we move forward, the developers in the focus group expressed concern that a slower housing market, combined with limited acreage for large-scale mixed-use communities, may limit the future of New Urbanism in Orange County to a niche market at best. This market reality may compel government to take a more proactive role in planning for and promoting New Urbanism as a viable, significant development pattern. This role could include expedited permitting, increased flexibility and active support in the face of localized opposition to higher densities.

Some of the important elements identified in this study that are key to the financial success of New Urbanist developments are high quality recreation/open space, a viable mix of uses (retail, office, civic) and attention to detail in the vertical elements. To that end, it is important that developers, consultants and government all participate in supporting New Urbanism in a manner that maintains or increases its profitability. Doing so will achieve more sustainable development patterns which will elevate the quality of life for the entire community. While regulation is a key to achieving sustainable development, development often responds more to incentives than rules. With this understanding, the following recommendations are presented for consideration in the hope of promoting the viability of New Urbanism in Orange County.

Recommendations

1. Most survey respondents and focus group attendees agreed that the single element that adds the greatest value to a New Urbanism development is public open space. However, as David Pace of New Broad Street Companies mentioned, the economic return is realized only when such open space is well designed, provided with appropriate amenities, highly visible, easily accessible and well maintained. With an understanding of the importance of well designed open space, the County should consider performance standards such as size, design, amenities and other such factors that influence the quality of public greens, parks and open space. The location of open space should also be regulated in terms of maximum walking distance to all housing units, appropriate access and visibility.
2. As noted in *Future Land Use Element Objective 1.6*, as well as *Goal 6* and related *Objectives and Policies*, Orange County encourages the development of mixed use traditional neighborhoods as an alternative to Urban Sprawl. One of the benefits of New Urbanism is that this form of development offers reduced impacts and a smaller

environmental “footprint”. The combination of compact development and mixed uses results in a more efficient use of infrastructure, including, but not limited to a reduction in external traffic. To the extent that reduced traffic impacts can be quantified, the developers of New Urbanism projects should utilize the County’s Alternative Impact Fee program to reduce costs.

If the development community can demonstrate that New Urbanism has a higher value (price point), is more sustainable, holds its value over a longer period, and is more efficient in the use of infrastructure and resources than in conventional development, then the County should consider a new impact fee category at the next update of the impact fee ordinance.

3. The developers of Avalon Park, Celebration and Baldwin Park agreed that the residents of their communities value the Village Center component above all other amenities or design features. The biggest challenges in developing New Urbanism communities are the complexities that arise from developing the mixed uses associated with these Village Centers. Very few developers have the appropriate combination of long-term capital, an experienced development team, and the vision for realizing the development of an integrated mixed use development. With the increased complexities come longer time frames, increased expenses and greater risk. One way to mitigate such risks is to allow flexibility in the plan, permitting the developer to offer the most competitive products throughout the life-cycle of the development. The development approval should focus on an overall vision, general design standards and external impacts. To the greatest extent possible, specifics on product type and individual parcel densities should be left to the preliminary subdivision phase, making it unnecessary to re-address the original PD each time an adjustment must be made. (Some solution akin to a land use matrix in DRIs could be used to address off-site impacts). Another way to promote the success of mixed-use developments is to allow developments to react to market conditions by removing linkages. For example, requiring a certain amount of non-residential development before residential development (or vice versa) hampers the development and makes it much more susceptible to market downturns.
4. Finally, the County should consider adherence to ratios of mixed uses within a development without trying to control phasing or linkages between uses. As long as a development adheres to the original vision, the developers must have the flexibility to respond to future market conditions. For instance, it is commonly understood that homes in New Urbanist style communities are typically more expensive (sometimes, much more expensive) than comparable homes in conventionally-developed

communities (Song & Knapp). During the early period of this decade, price considerations did not substantially impact absorption of units in New Urbanist projects, largely because of solid consumer asset growth and very flexible mortgage financing options. However, with the economy and housing markets slowing down and credit significantly tightening, it remains to be seen whether the market for these more expensive homes will hold or decline. The County's ability and willingness to promote and support flexible land use, design, permitting, and even the fiscal requirements of New Urbanism developments will enhance the opportunity for these projects to survive economic downturns and increase interest in New Urbanist forms for a larger segment of the development community. The process should not be punitive for developers that want to alter the development program without increasing the external impacts. An example is the land use exchange matrix commonly used in Developments of Regional Impact.

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