

March 28, 2007

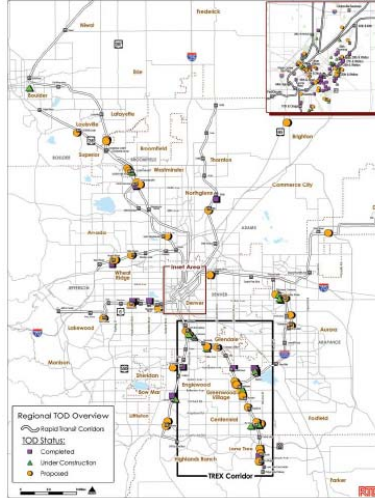


Agenda

- Presenters: Arleen Taniwaki, ArLand Land Use Economics
Ted Kamp, CU Denver, consultant
- Regional (Corridor) Economics
- Station Area Economics
- The Role of the Market Study
 - Residential
 - Retail
 - Office
 - Other Uses
- Feasibility
 - Costs
 - Financing

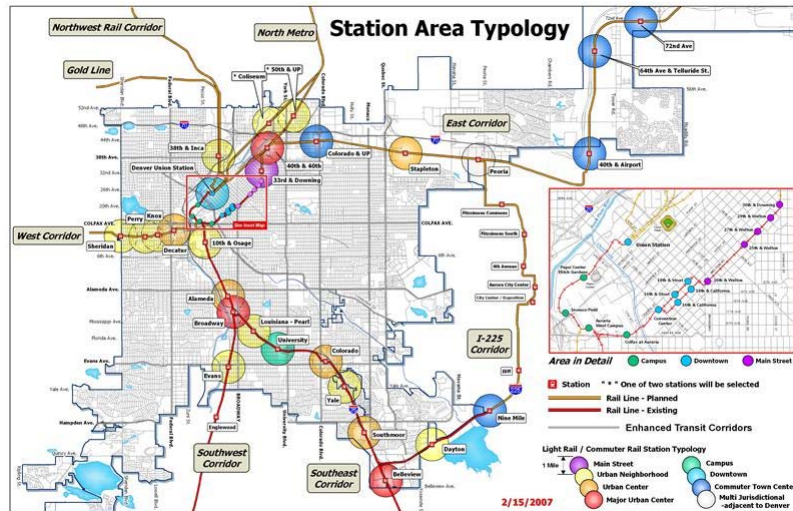
Regional Corridor Economics

- Transit alone does not create a market for real estate investment
- Transit changes the “context” for development
- Each type of development within the TOD should consider corridor competition as well as local competition
- The same factors that affect all development will affect TODs
 - Location
 - Development Type
 - Development Cycle
 - Interest Rates



Source: RTD

Denver Station Area Typologies



Source: City of Denver, CTOD

Station Area Analysis

- Existing Conditions
 - Zoning / Rezoning
 - Infrastructure
 - Access
 - Site Size
- Community Needs and Issues
- Potential Themes, Market Niches, Development Concepts, Catalyst Projects
- Need for Public Financing
- Critical Mass



Former Gates Factory, Cherokee Redevelopment

5

The Role of the Market Study

▪ If you build it, will they come?

For each land use, we ask...

- What broad trends affect demand for this use (eco/demo/socio)?
- What is the market?
 - Trade area size & shape (should include most likely customers & competitors)*
 - Who's in the market? (describe customer base demographics/economics)*
- What is the competition?
 - Types of competition*
 - Size & performance of competitors*
- How much demand is in the market?
 - Annual "absorption" (in units or square feet), projected forward*
- How much total market demand can this project "capture" and how?
 - Given the market, the competition, & the nature of the project*

6

Market Demand Analysis

- Consider impact of proposed and existing activity generators in the area;
- Analyze factors which will impact future demand for development opportunities among various land uses;
- Consider property's competitive position and ability to capture market share;
- Forecast demand for proposed land uses in market area quantify potential market share for the project.

For **residential**, demand is a function of household growth, spread over income breaks, converted into rent and price brackets

For **retail**, demand is also a function of growth in trade area households, converted into typical spending patterns across retail categories, then translated into square feet based on average price per s.f.

In some underserved markets, there may be existing pent-up demand (a "retail void") in categories where demand outstrips supply

For **office**, demand is a function of employment growth, using assumptions about likelihood of using office space by each industry sector

Unusual land uses may require primary (survey and/or focus group) research to quantify demand

7

Tough Questions – Part 1

- **Does development along light rail need market support independent of transit?**

- Will this change over time?

What's the true role of ridership in demand for TOD?

- awareness/visibility
- residential choice
- organization of urban form

- **Is there a limit to demand for "walkable urbanity"?**

8

Some Evidence in Favor of Placemaking

Commuters make a roll reversal

As downtown Denver grows as a residential destination and transit options expand, more people are going against the flow, contentedly commuting from the inside out

By Kristi Arellano
Denver Post Staff Writer

Article Last Updated: 03/25/2007 11:30:22 PM MDT

When Brent Snyder started talking to lenders about financing his downtown apartment developments, they said his prospective residents already live in or near downtown.

"They told me it would draw from a very narrow band," said Snyder, president of Century Real Estate Services. "They were wrong."

Snyder quickly discovered that he was drawing tenants from across the metro area. Many worked in places like Boulder and Greenwood Village but chose to join the ranks of reverse commuters - people who live within an urban core but travel to jobs in the suburbs.

As downtown Denver continues to grow as a residential destination and transit options expand, developers and real-estate agents say more people are commuting against the typical flow of traffic.



Matt Krump waits at the light-rail stop at Union Station for the morning trip to his job in Greenwood Village. Krump, whose downtown residence he shares with his wife is a 10-minute walk from Union Station, likes his reverse commute. (Post / John Prieto)

9

Trade Area Identification

Determine trade area(s) for proposed land uses considering impacts from:

- Physical barriers, such as highways, major arterials, etc.;
- Location of possible competition, both within and outside the market;
- Proximity to population and/or employment concentrations; and
- Market factors which will set values for development.

Rules of thumb

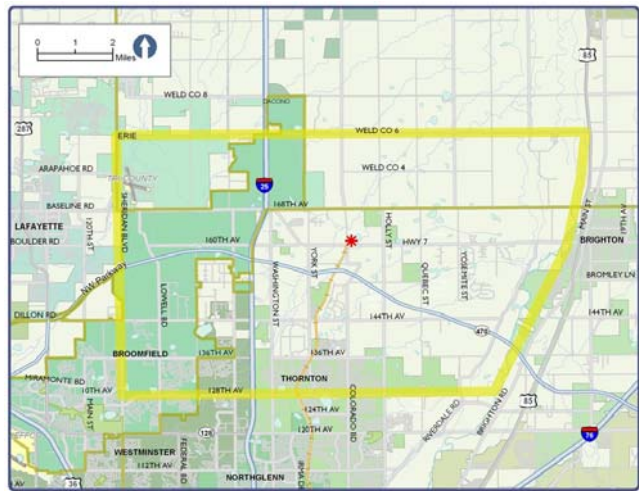
Roughly 5-mi. radius for regional retail (e.g. mall), 3-mi. radius for community retail (big box), 1-2 mi. for neighborhood retail (grocery)

If possible, don't use circles — real trade areas are more irregular, with boundaries like highways, rail, rivers, & land use breaks

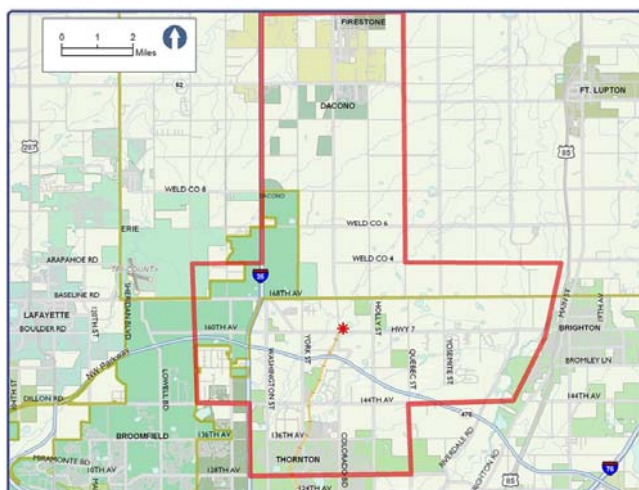
In general a project, by itself, should not greatly affect overall demand or supply in its trade area (big projects need big trade areas)

10

Trade Area Identification



Trade Area Identification



Trade Area Identification



13

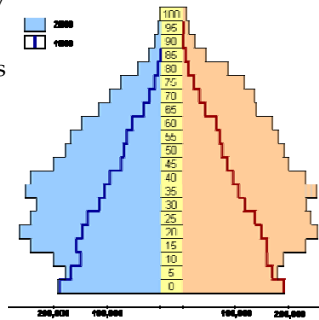
Tough Questions – Part 2

- **How will transit affect the shape of trade areas?**
 - elongated? (reflecting ridership effects)
 - fanned out? (for terminal stations)
 - discontinuous? (competing with other TODs)

14

Residential – National Trends

- Nationally, tremendous shifts occurring in demographics
- Single adults will be the new majority household in the U.S.
 - In 1900, married couples with kids comprised the majority
 - Currently, 25% of all households, projected to decrease to 20% of all households by 2010
- More older and smaller households want smaller homes with more convenience – transportation, entertainment, culture, shopping
- “Echo” boom



Source: Center for Transit-Oriented Development

15

Tough Questions – Part 3

- **Assumptions:**
 - Dense, mixed-use urban space lends itself to attached ownership and for-rent residential products**
 - Condos townhomes and apartments cater to young adults and empty nesters**
- What's the right mix of products and amenities to cater to both demographics?

16

Residential - in Mixed Use/TOD

- In the Denver area, recent mixed-use development led by upscale residential housing
- Corresponds to changing demographics
- Best mixed use sites often have challenges
 - No previous identity
 - "Shifting" the market
 - Environmental challenges
- Changing national and local market
- Conventional market analysis / appraisal
 - Doesn't always apply
 - May be creating new market



One Lincoln Plaza

17

Residential - Affordability

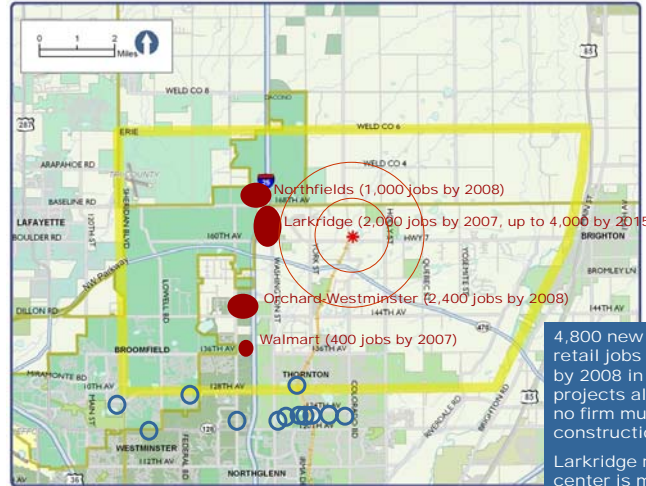
- Affordable housing is / will be an issue
- Single person households have only wage earner
- Half the U.S. population will be non-white by 2050 with a 1/3rd of that from immigration
- Immigrant and minority households
 - Tend to have lower incomes
 - Tend to own fewer cars
 - Use transit more
- Further discussion



Source: Zocalo Development

18

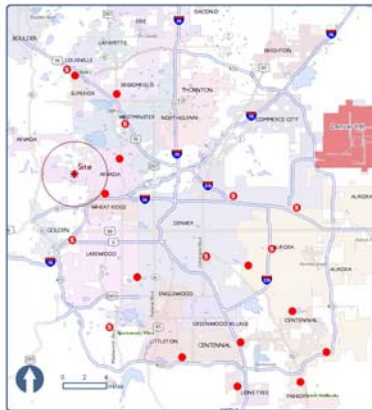
Apartment Supply vs. Retail Jobs Pipeline



4,800 new trade area retail jobs projected by 2008 in major projects alone, with no firm multifamily construction plans

Larkridge retail center is more than 4 mi. from nearest apartments

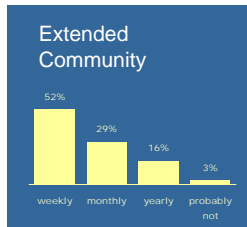
Retail



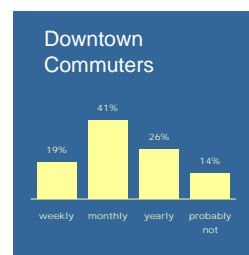
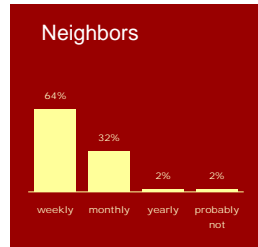
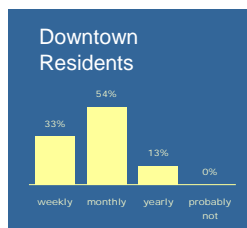
Target and Super Target Locations

- Most station area retail will be convenience-oriented
- Several of the larger sites will be conducive to larger-scale retail with most of the customers coming from outside the TOD
- Retailers, however, have their own location criteria, market and parking requirements, etc.
- Retail is a popular option at larger sites for its ability to generate tax increment financing which can pay for initial capital investments for site cleanup, infrastructure, etc.
- Traffic generation, access, TOD suitability are concerns
- Grocery Stores

Supplementing With Survey Research



If a Mercado with many of the features you selected came to 10th and Osage every week next year, about how often do you think you might visit? (check one)



Attendance Intent/Frequency – by Segment

21

Other Uses to Create the Place



Belmar

Source: Elkus Manfredi Architects

- Event Retail / Social Retail
- Entertainment: 24/7 environment
 - Movie theater
“art houses”
 - Skating
 - Bowling
 - Farmer’s markets
 - Concerts
 - Conference facilities
- Hotel
- Civic
- “Amenities” don’t always generate direct revenue

22

Office



Gates Office Building near Denver Union Station

- Formerly, workers followed employers
- Now, employers follow workers
- Major employers like to be easily accessible to labor pool
- Denver office market has been weak recently
- Market is slowly recovering

23

TOD Feasibility – Time and Money

- Time
 - Can take several years before construction: interest carry
 - Predevelopment – Architecture, Market, Testing
 - Zoning & Entitlements
 - Community Acceptance
- Land Costs
 - Land speculation
 - Challenging environmental issues
 - Infrastructure provision
 - Mixed use phasing challenges
- Construction Costs



Sugar Building at 16th & Blake from Denver Infill.com

24

Costs: Land and Parking

- Land Cost (example):
 - Suburbs (C-470 and Kipling) \$6 / sf (\$261,360 / acre)
 - Lodo \$25 / sf (\$1.1 million / acre)
- Parking (initial cost)
 - Surface Parking at \$1,500 / space
 - Structured Parking \$13,500 / space in Denver
 - Structured Parking feasible: land prices > \$1 million / acre
 - Reduction in parking concerns – no agreement



Denver Art Museum Parking Structure
Source: Mortenson

25

Costs: Construction

- Different uses don't "stack" easily on top of each other
- Structural costs
- Incompatible building requirements: residential can be tough
- Materials cost escalation
- Costs increase exponentially
 - \$13 million - 3 story apartment building
 - \$155 million – 15 story apartment building

Cost Source: RS Means

26

Financing

- Mixed use has been difficult to finance
 - Belmar was financed through a “consortium” of lenders
- Public Involvement
 - Tax increment financing
 - Special District financing
 - Paid for by future development sales and property tax generation
 - Leveraging future development to pay for initial costs now



Cherokee Denver parcels
Source: cherokeedenver.com

27

Answers?

- **Market Feasibility**
 - Supplement the usual market research
 - Do as much **case study research** as you can get your hands (or mouse) on
 - Do **more primary research** (focus groups, quantitative surveys) – then interpret it with a grain of salt
 - Make your prophecies **self-fulfilling** through aggressive market positioning, product design, and promotion
- **TOD Financing**
 - TOD presents market challenges and risks, particularly for new projects on new lines
 - Large initial capital costs; doesn't pay its own way initially
 - Amenities necessary, but don't always generate direct revenue
 - Parking / traffic is biggest challenge for neighbors

28