

CASE STUDY

REDEVELOPMENT HOUSING DENSITY AS A PLANNING TOOL A Case Study for Grove City

The objective of this case study is to document the basis by which developers determine the feasibility of mixed use redevelopment projects in urban locations such as along Broadway, Columbus Street, or Park Street, and to present the elements of consideration in such a way as to illustrate the contributions that housing density can make in providing civic structure that benefits the public.

POINT #1- The cost of land per housing unit varies with the position of the redevelopment site within the overall housing market. Generally **higher market prices are paid** in upscale “hot” or desirable areas. In these locations, buildings provide **for higher design and construction quality, and larger, fancier or specialized housing units.** Amenities such as streetscape, excellent parking and common use facilities are expected. **In lower cost market locations, smaller and more simply- appointed housing units are provided** at lower levels of design and constructions quality, and amenities are diminished, unless projects are very large in unit count.

The average land acquisition cost per condominium housing unit in Central Ohio, over the last three to five years is \$21,977. For all such projects the cost per unit has ranged from \$10,417 to \$35,700. Average costs across market areas, however, have little to do with determining the feasibility of a given project within a selected market area.

POINT #2- In a given market area and for a possible redevelopment project under consideration, the developer must first determine the price point or sales price which the market would likely pay for a housing unit. He must also project the unit size and finish characteristics necessary to meet market expectations for units of that price.

POINT #3- The sales prices of condominium housing units also vary in relation to the desirability (market position) of the project location, as well as in relation to the quality of design and construction. **As mentioned above in Point #1, for every market area there is also an expectation of unit size, number of bedrooms, and other unit qualities that will be provided for the unit price.** It is the sum of unit sales which must generally pay for all costs of the development (including amenities), except for ground floor commercial space and its required parking. These costs include land cost, construction costs, site development costs, engineering, architectural, marketing, legal, and real estate sales fees, and the developer’s overhead and profit.

RULE #1- The cost of land acquisition, plus demolition and basic site preparation work must allow a ratio to unit sales price which is workable within the project's market position. Determining project feasibility is a back and forth, iterative process of projection and calculation. The developer begins with an anticipated unit sales price, measured in terms of \$/ square foot. For a given market area, unit sales prices correlate with unit size, configuration and characteristics. The developer also assumes, therefore, an appropriate unit size. Land costs vary from 10% to 18% of unit sales price, and **the developer's first measure of minimum total building area and minimum total unit count can be calculated from projected sales price and land cost.**

Following the initial assumptions above to determine project feasibility, much work remains to be accomplished. Architects and engineers need to prepare a design for the proposed project, responding to actual site dimensions, utility services, and similar factors. The most appropriate parking configuration needs to be determined, and the construction cost of the proposed design needs to be estimated. With a more detailed picture, a detailed projection of total costs can be compared with potential total unit sales to determine feasibility.

RULE #2- In mixed use, urban redevelopment projects, ground floor space is reserved for commercial tenants, parking, servicing, and pedestrian access. The developer generally allocates the revenue from ground floor commercial space to pay for related parking and streetscape improvements. Residential condominium units do not sell in ground floor configurations. This means that all residential units required for project feasibility must be located on the second and upper floor levels.

Discussion

1. - Within a given market area, land costs and zoning limits determine redevelopment potential. For example, consider a four family apartment building in a good market area which is for sale at the price of \$400,000. Using the \$21,977 average land value in Central Ohio for condominium units, a feasible redevelopment design would need to include 18 condominium units. (See attached land cost data.) If zoning regulations would not permit this opportunity, redevelopment would be infeasible.

Zoning ordinances which set housing density limits actually limit opportunity for redevelopment. One story, strip centers become more viable as a redevelopment option.

2. - Developers cannot control land costs. They are in the same boat as communities that have used eminent domain powers to assemble sites for redevelopment. It is customary that property owners increase sale prices after they learn that land parcels are being assembled in an area. The idea behind the eminent domain power was to allow the courts to determine a fair market value for sites being assembled to allow redevelopment for public purposes to proceed without cost gouging. **Every redevelopment proposal by a developer has dealt with the site acquisition issue. Every proposal is, therefore, different and should be evaluated independently.** In a given case, one developer may have obtained a “good deal,” or a favorable price. In another case, a developer may have had to agree to pay “top dollar” in assembling a redevelopment site. In either case, if a community is seeking redevelopment in selected areas, each proposal submitted by a developer should be considered an opportunity for the community to achieve its objectives.

3. - Tinkering with building designs submitted by developers is problematic, because most reviewers do not understand the impact of various requests. Each developer determines the necessary program for the design of housing units. This includes setting the size of the unit, the number of bedrooms, whether units are to be partitioned into functional spaces, or designed in open space, or loft fashion. These determinations and others involving interior finishes relate to the developer’s sense of what should be offered for the target sale price for units. The developer takes considerable risk in making these decisions, because a given design may miss the market, increasing the time required to sell units. This is why developers resist shifting dollars budgeted for unit construction to pay for improvements or amenities demanded by planning commissions during plan approvals.

- Asking a developer to plan smaller units to lower building height causes problems. The maximum sales price (\$/Sq Ft) for a housing unit in a given market area is possible for a unit sized to meet market demand. Providing a project with smaller units requires a reduction in maximum sales price, and results in an increase in the ratio of land cost to total sales value. The land cost per unit increases to an infeasible level.
- The cost of special building components, such as elevators, would spread over a reduced total square footage, increasing the ratio of construction cost to total sales value.
- To retain the feasible ratio of land cost to total sales value, a greater number of smaller housing units would be required. This would increase parking demand beyond the potential of the site to provide parking.

4. - Other costs and opportunities should be considered during review of redevelopment proposals.

- The width and depth of a site can greatly affect parking area configurations and floor plan (unit count) options. The most critical of these involves site limitations on parking configuration, particularly if structured parking (garage space) is necessary above or below grade. An inefficient parking layout can increase the cost of below grade structured parking by more than \$10,000 per space.

- **Significant inefficiency in parking layout generally results each time a developer provides parking for his own redevelopment proposal.** Significant added construction cost is also incurred. As noted above, below grade structured parking adds enormous cost. As an alternative, developers could make cash purchases of licenses for parking spaces in a municipal garage. Such spaces would be assigned by the developer as the public spaces required to service the ground floor, or street level, commercial space of his redevelopment proposal. This would allow the developer's ground floor parking opportunity to be used for tenants of residential units, and could change project economics sufficiently to allow the developer to make other civic improvements.
- **Most communities interested in encouraging redevelopment seek to partner with developers to achieve plans that benefit the entire community.** Town Center parking plans define how both public and private facilities should be laid out. These plans may or may not include metering and other forms of revenue production, such as licensing, but they generally define design guidelines and construction specifications. Cities also prepare their own plans for streetscape improvements, including pedestrian and traffic signalization of intersections.

Various public / private partnering arrangements are defined to assist in implementing municipal parking and streetscape plans. Some communities simply define what the public will accomplish, and seek to cause developers to accomplish the balance.

- Absent some form of public partnership assistance (such as a municipal parking garage), any unusual or special scope of amenity required by a planning commission for a developer to provide to obtain zoning approval, the developer usually has two options: 1.) increase residential unit count; 2.) reduce design or construction quality to lower costs.
- By increasing unit count within the redevelopment project, a developer could provide civic improvements, such as a portion of the streetscape plan. The rate of contribution would be subject to negotiation, but a place of beginning would be the value of land cost per housing unit.