

MID ATLANTIC REAL ESTATE JOURNAL

By Jessica Zolotorofe, Ansell Grimm & Aaron

Mixed-use developments: Seemingly the perfect fit

In the last number of years, mixed-use projects, especially those having retail and residential components, have gained quickly in popularity. As is the case with all real estate investments, there are certainly benefits, but also some significant challenges.



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In a time when efficiency and convenience are so highly valued, people seek out housing options that offer 'lifestyle' living and time-saving amenities. Mixed-use developments are seemingly the perfect fit, and are equally desirable to commercial tenants. Especially in suburban and rural neighborhoods where people are otherwise heavily dependent on automobile transportation, commercial tenants in mixed-use centers have the advantage of 'built-in' patrons residing within the same building, or a short walking distance.

Along with the advantages, residential tenants do have some concerns with their proximity to their commercial neighbors. Noise is a major concern, as are uses that produce large amounts of garbage or emit offensive odors, traffic congestion, and commercial tenants monopolizing parking spaces. Developers can, however, take preemptive measures to minimize the impact of these issues, such as use of certain building materials to reduce the migration of sounds and smells, designation of parking areas solely for residential tenants,

and the imposition and strict enforcement of rules for the development.

Mixed-use allows owners to diversify their streams of income, spreading risk over multiple types of real estate investments within a single project. For example, retail and residential market fluctuations are not always consistent, so among the benefits of owning mixed-use, income from one use can often support the property when there are vacancies in the other.

Additionally, particular to mixed-use is the ability to build vertically, providing for greater returns per square foot of real property purchased. As commercial tenants are most successful with street-level access, a majority of retail centers across the U.S. are single-story strip centers. The mixed-use concept allows for ground floor retail with uses far more conducive to upper level placement above (such as residential or office), thus significantly increasing potential rental income.

On the other hand, securing financing for mixed-use projects can be relatively challenging. Lenders see greater risk with complex development and may require more extensive due diligence and financial analyses, which can prove arduous and time consuming for a developer. In larger projects, financing is sometimes provided by numerous lenders, each experienced with one particular use. However, with horizontal building structures, providing collateral to each of the lender's satisfaction becomes messy.

Zoning approvals and permitting processes are another area that requires consider-

ation. Mixed-use projects may necessitate zoning variances, and fire and building codes could vary as to each intended use.

Finally, management of mixed-use is far more complex. Some of the unique hurdles that managers will face include: (i) proper allocation of common area maintenance charges (especially with some tenants (typically residential) paying gross monthly rent, and others (typically commercial) paying separate base rent, taxes, insurance, and common area expenses); (ii) collection, maintenance and return of security deposits, and other accounting requirements which differ by type of tenant; (iii) enforcement of rules, and ensuring compliance with local code and laws that may vary by use; and (iv) balancing conflicting schedules; residential tenants prefer that maintenance and repairs take place during the workday when fewer are present, while commercial tenants typically prefer nighttime to eliminate interference with their business operations. It is important for a developer to retain a management company that has experience with mixed-use management.

With some advance planning and an understanding of their intricacies, mixed-use projects can prove very favorable investments. Adding liveliness and a sense of community to neighborhoods all over the Country, mixed-use development is not expected to slow down any time soon.

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