

# Density & Development Economics



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**STRATEGICECONOMICS**

# Density is “In”

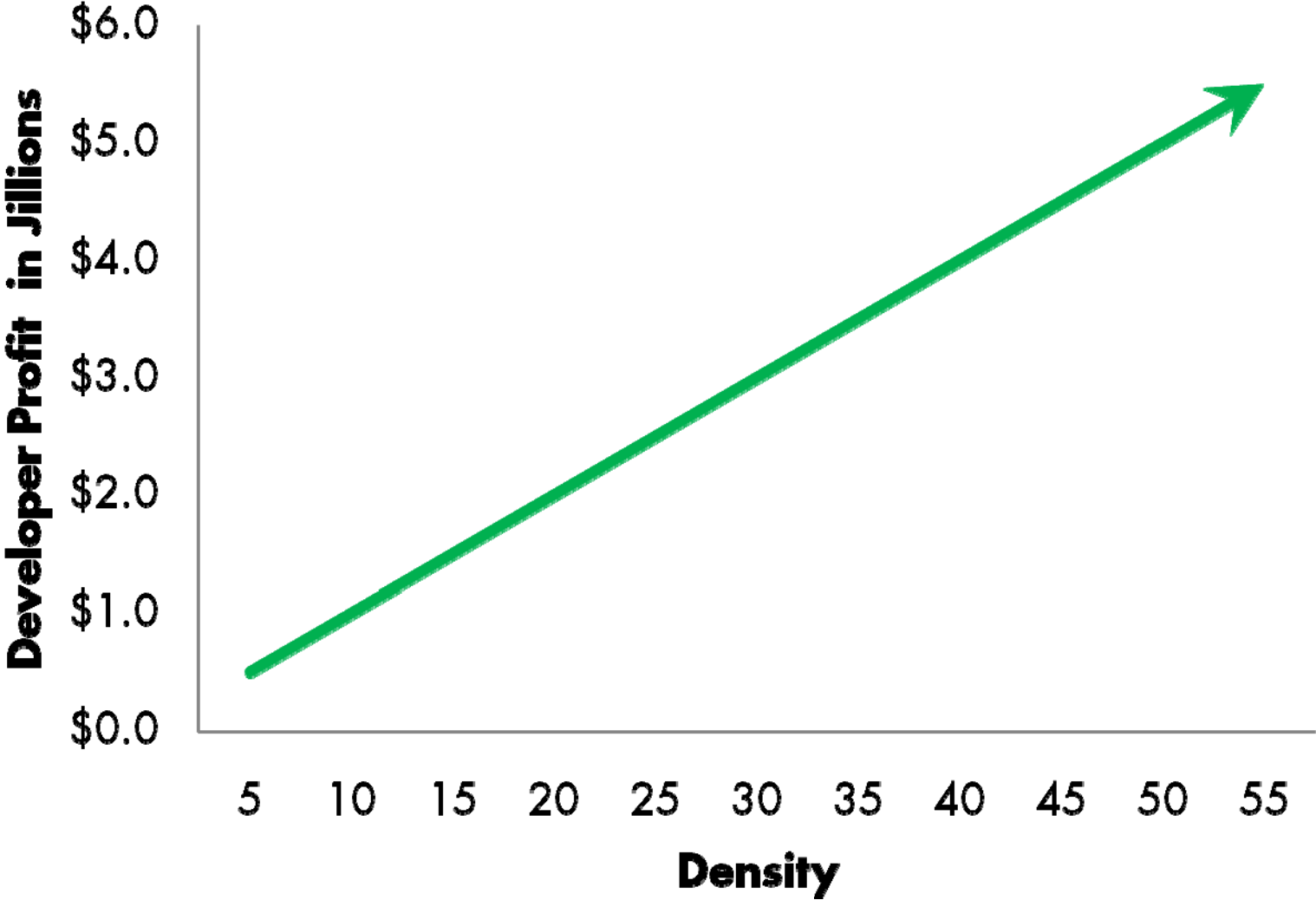


Multiple surveys show that between 30 and 55 percent of Americans want to live in mixed use, mixed density places

-“Option of Urbanism” by C. Leinberger



# Common Perception of Density



# Primer on Financial Feasibility Analysis

## *What is a land residual analysis?*

- A basic measure of financial feasibility and the amount of value that could be generated by development
- Estimated value of the land given the income that could be generated from development
- A way to determine the “highest and best use” of a property



# Financial Analysis How-To

## *Step 1:*

Generate Assumptions  
About:

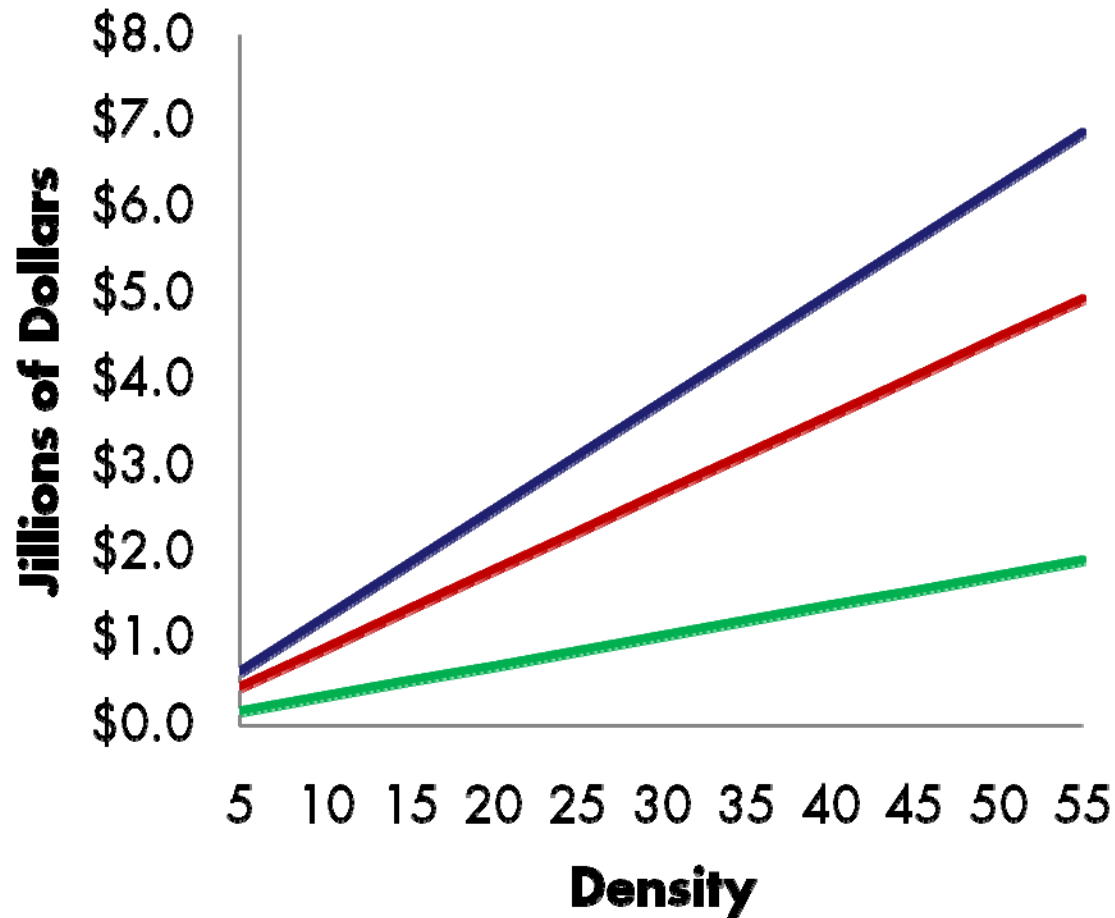
- Development Costs
- Expected  
Project Revenues

## *Step 2:*

$$\begin{array}{r} \text{Value Based on} \\ \text{Expected Revenues} \\ \text{from Development} \\ - \text{Total Development Costs} \\ \hline = \text{Land Residual Value} \end{array}$$



# Simplified Land Residual Analysis



Total Revenues

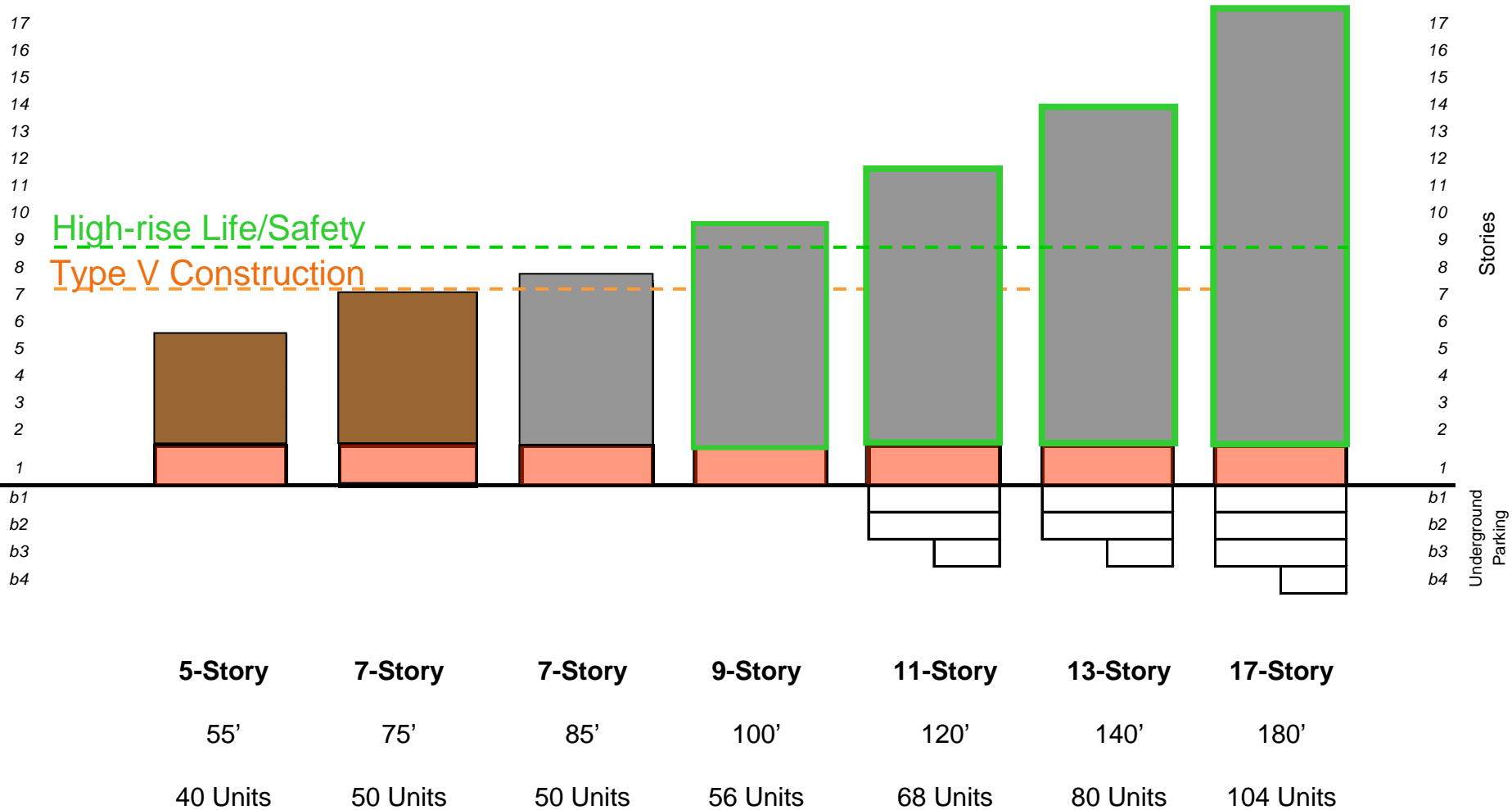
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Development  
Costs

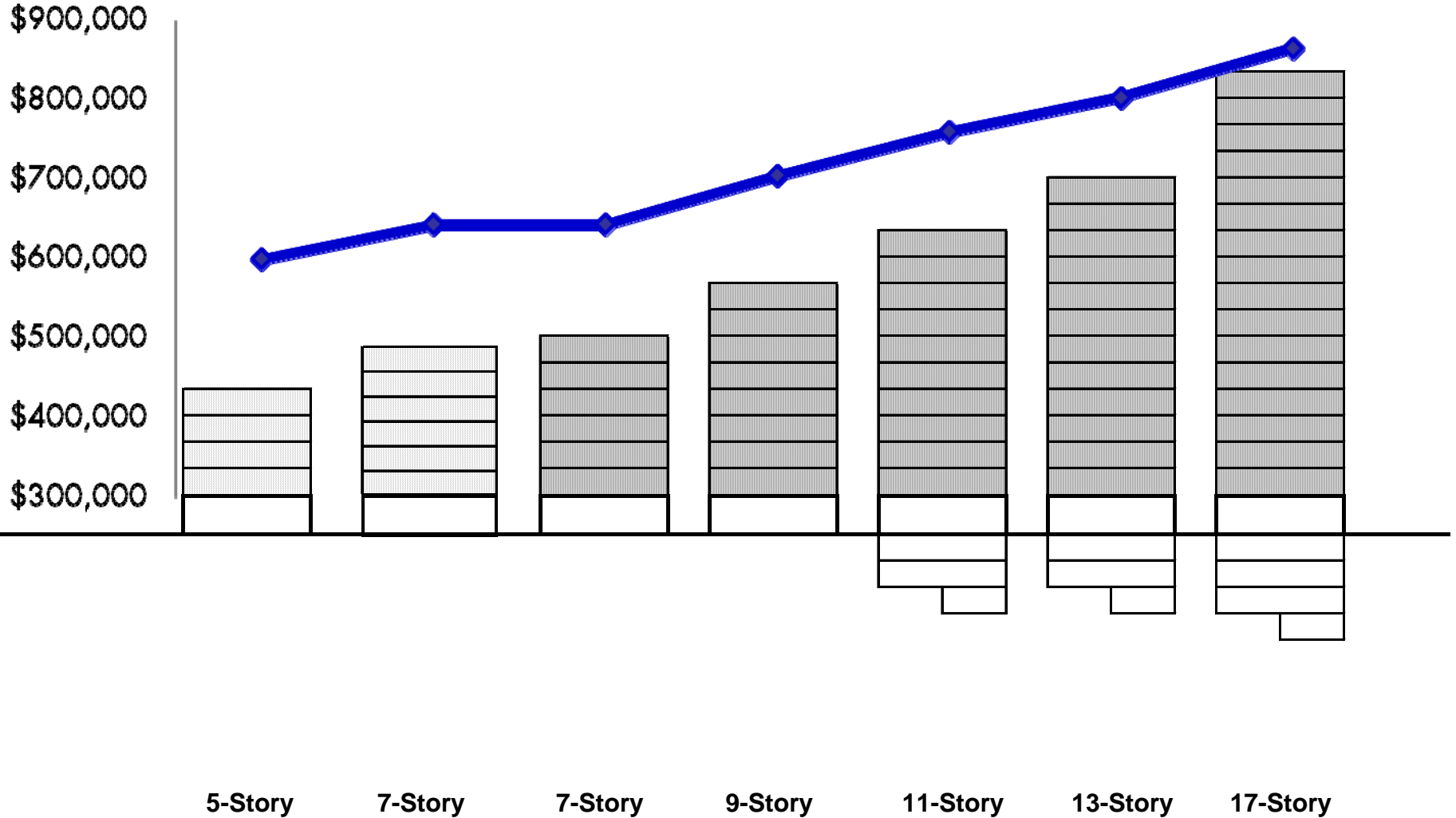
= Residual  
Land Value



# How Does it Work in the Real World?

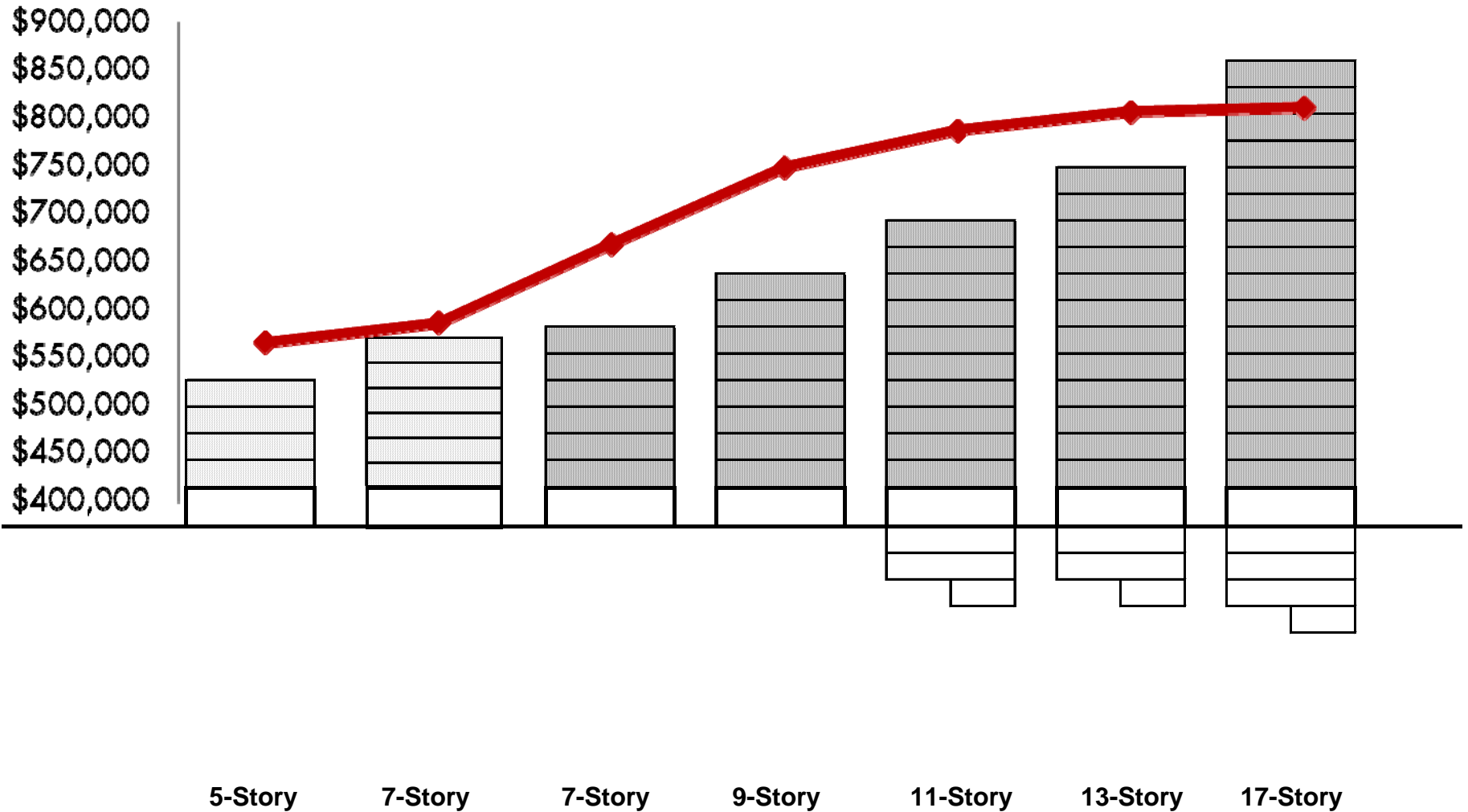


# Average Revenue per Unit

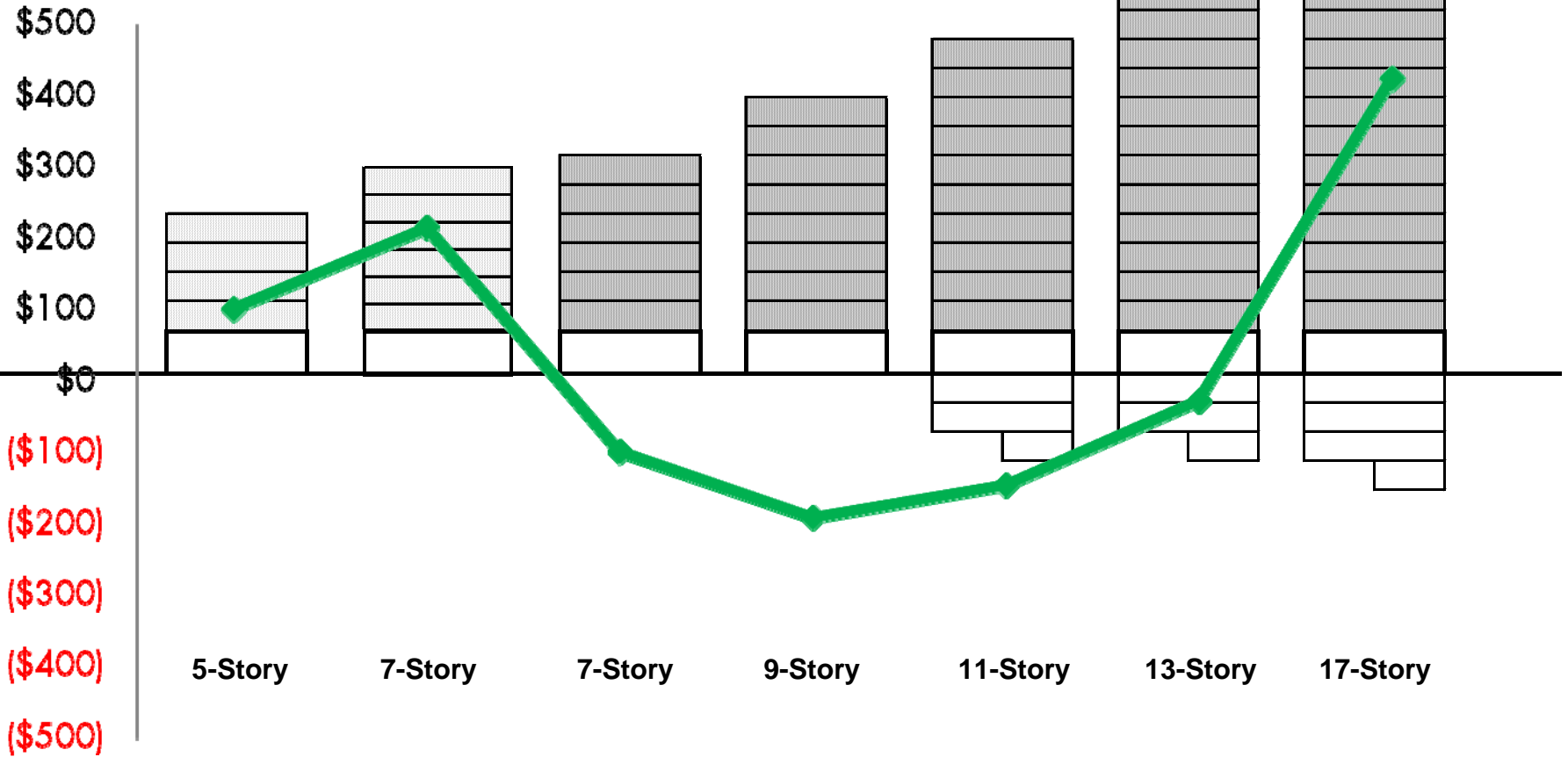




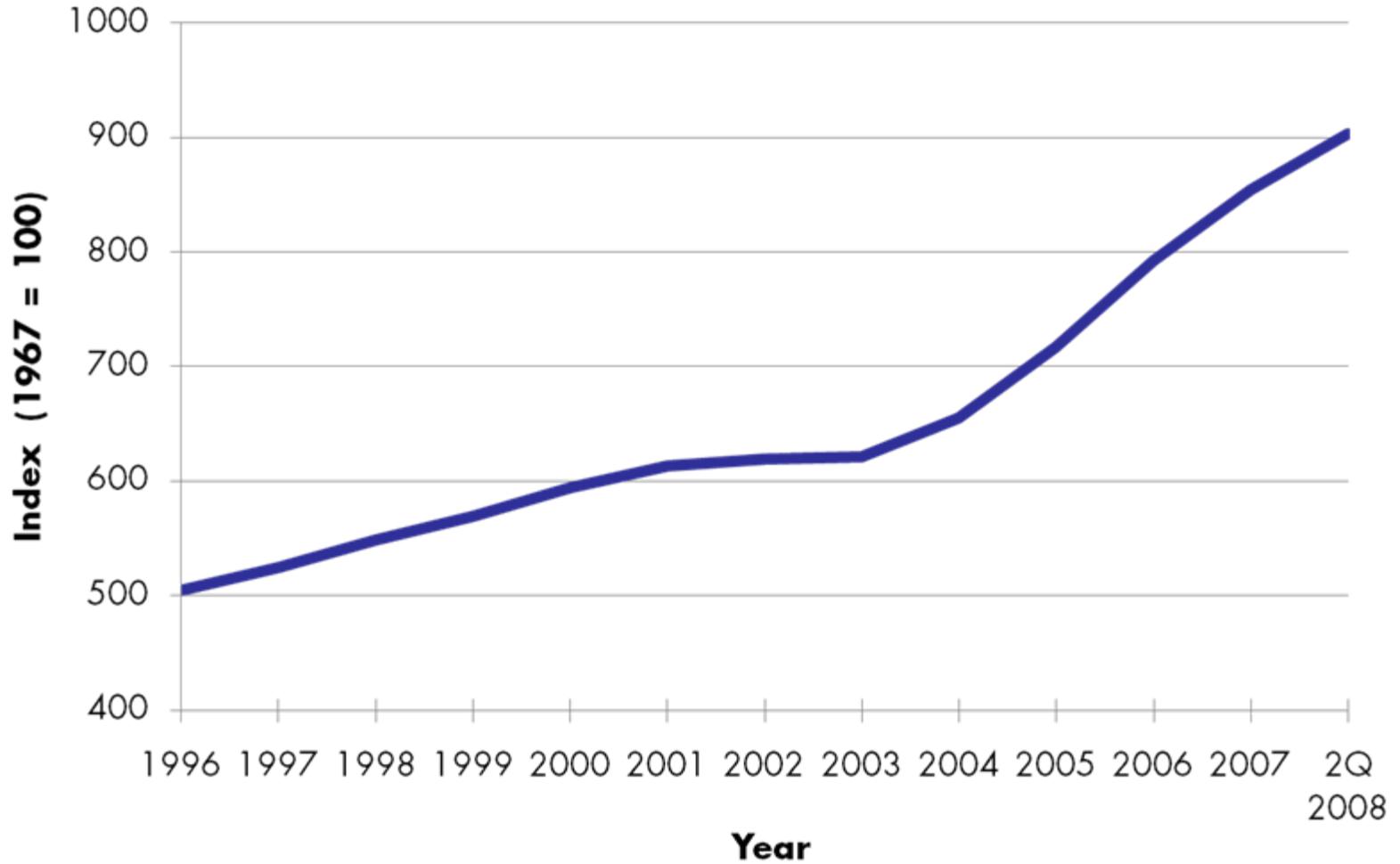
# Average Cost per Unit



# Residual Land Value (per Square Foot Land)



# US Building Cost Index, 1996 - 2008

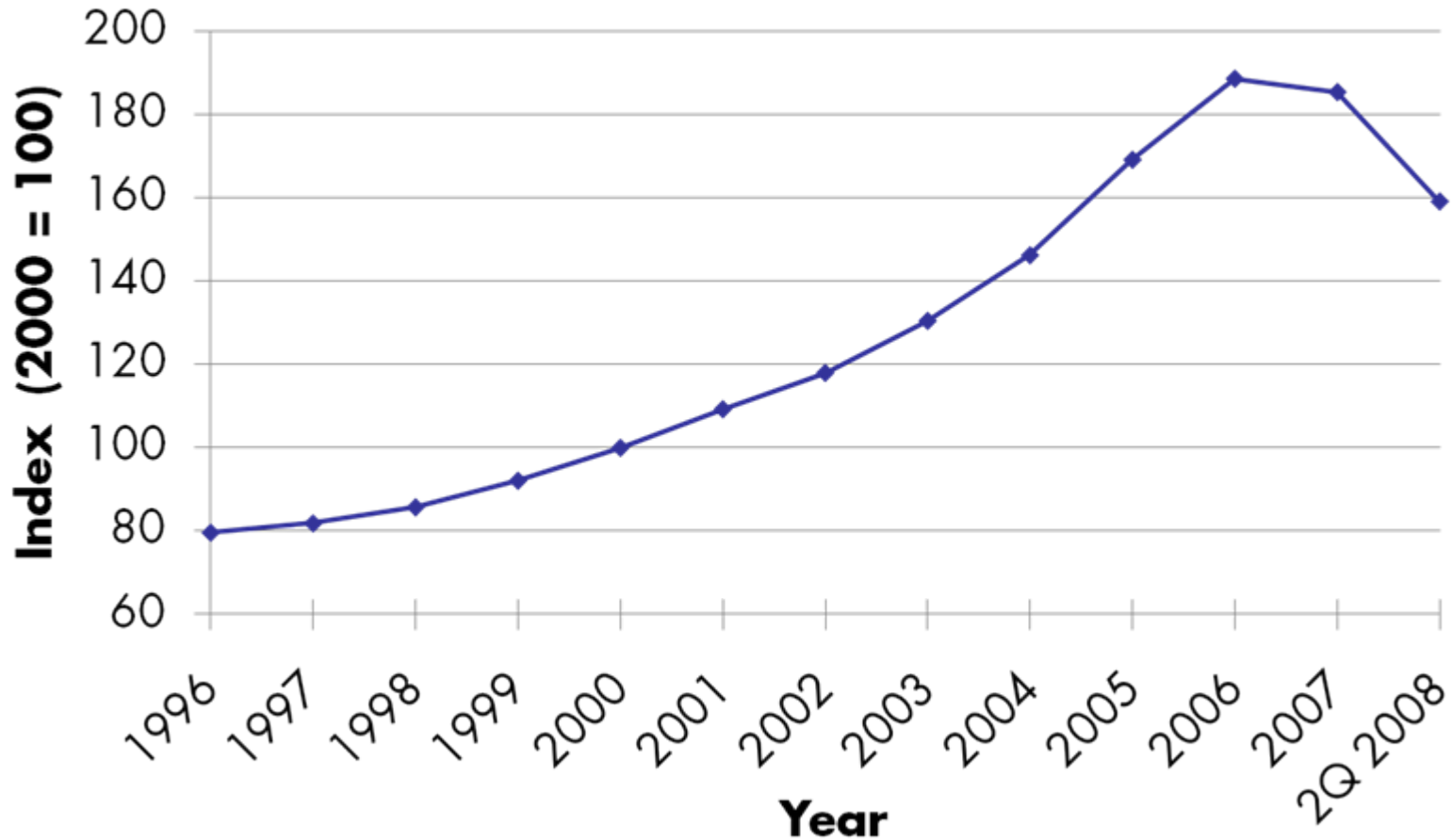


Source: Turner Construction Index



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# US Single Family House Prices, 1996 - 2008



Source: Case-Shiller House Price Index



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# How Can We Influence What's Feasible?

## 1. Promote Quality Mixed-Use Neighborhoods

Price Premium – 10 to 20%



# How Can We Influence What's Feasible?

## 2. Provide Access to High Quality Transit



Lower parking requirements  
= **lower development costs**

- plus -

Transit is a desirable  
neighborhood amenity for  
both residents and  
resulting in a  
**premium**



# How Can We Influence What's Feasible?

## 4. Encourage Places with "Character"

	West University	Montrose	Midtown	Katy
<b>2006 Average Sales Price</b>	\$591,215	\$277,310.01	\$274,209	\$136,726
<b>Placemaking Grade*</b>	A	A-	B	D+



**MONTROSE**

The Montrose neighborhood has a unique and distinctive feel. Homes date back to the early 20<sup>th</sup> century and many are listed in the national registry of historic places. There are many appealing architectural features throughout the neighborhood, including the extensive use of color. There are several local boutique type stores, bars, restaurants and service-oriented uses



**MONTROSE**



**KATY**

...then suburban sprawl crept into the area and large surface parking lots. The Katy Mills Mall, a suburban regional area includes some industrial uses as well as large areas of undeveloped land. The Katy Mills Mall, a suburban regional area includes some industrial uses as well as large areas of undeveloped land. The Katy Mills Mall, a suburban regional area includes some industrial uses as well as large areas of undeveloped land.



**WEST UNIVERSITY**

**WEST UNIVERSITY**



**MIDTOWN**

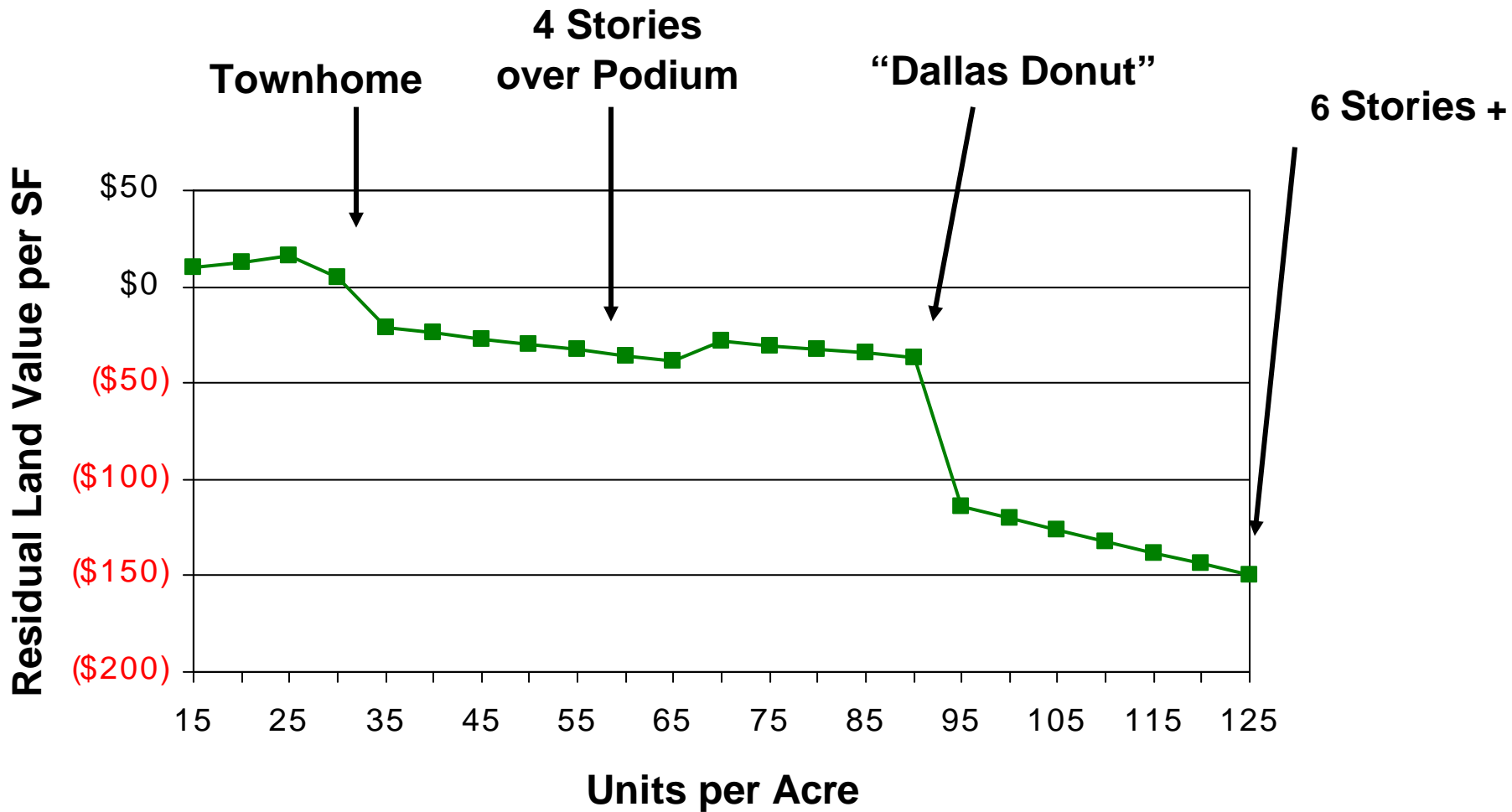
**MIDTOWN**

Midtown has a tremendous opportunity to become an urban planner's dream. Downtown and the Texas Medical Center are the heart of urban village development. Even though new development and new residents can be multi-family residential units, midtown has a tremendous opportunity to become an urban planner's dream.



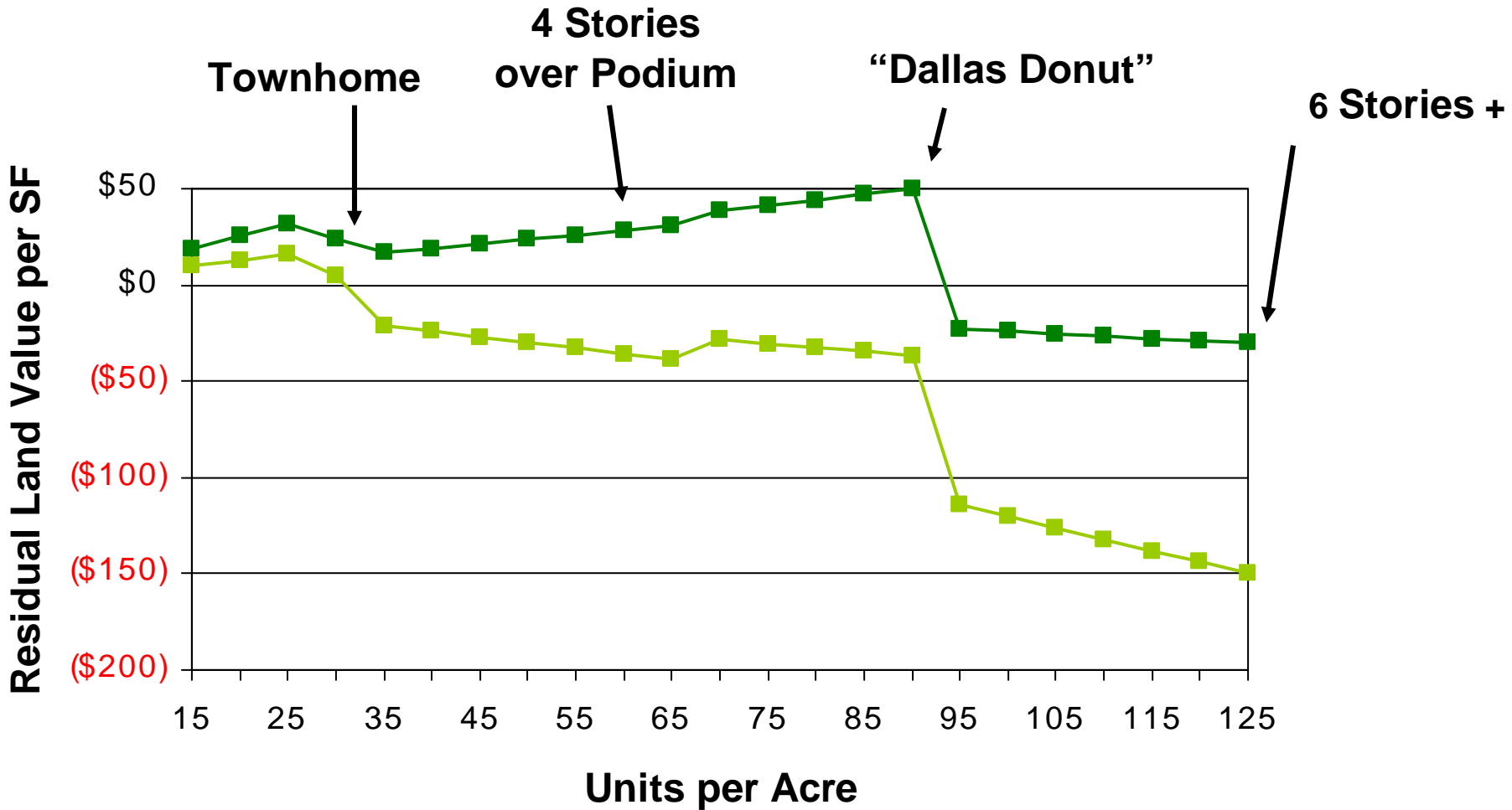
\*Placemaking grade source: "State of Place" project by Wulfe and Company. 002 Houston Magazine, April, 2005.

# Houston Example

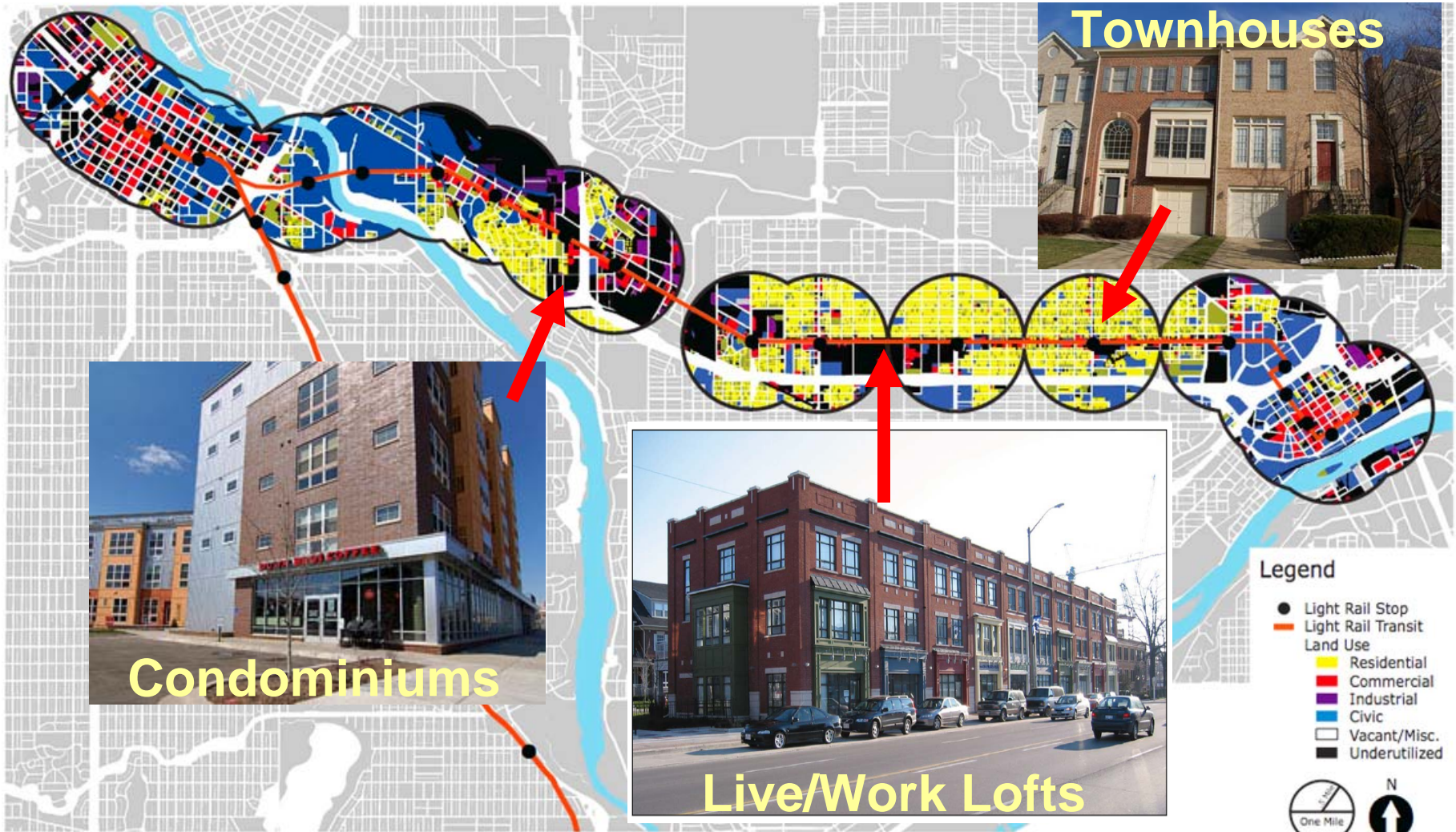




# Impact of 15% “Placemaking” Premium and Lower Parking Ratios



# St. Paul Central Corridor Example



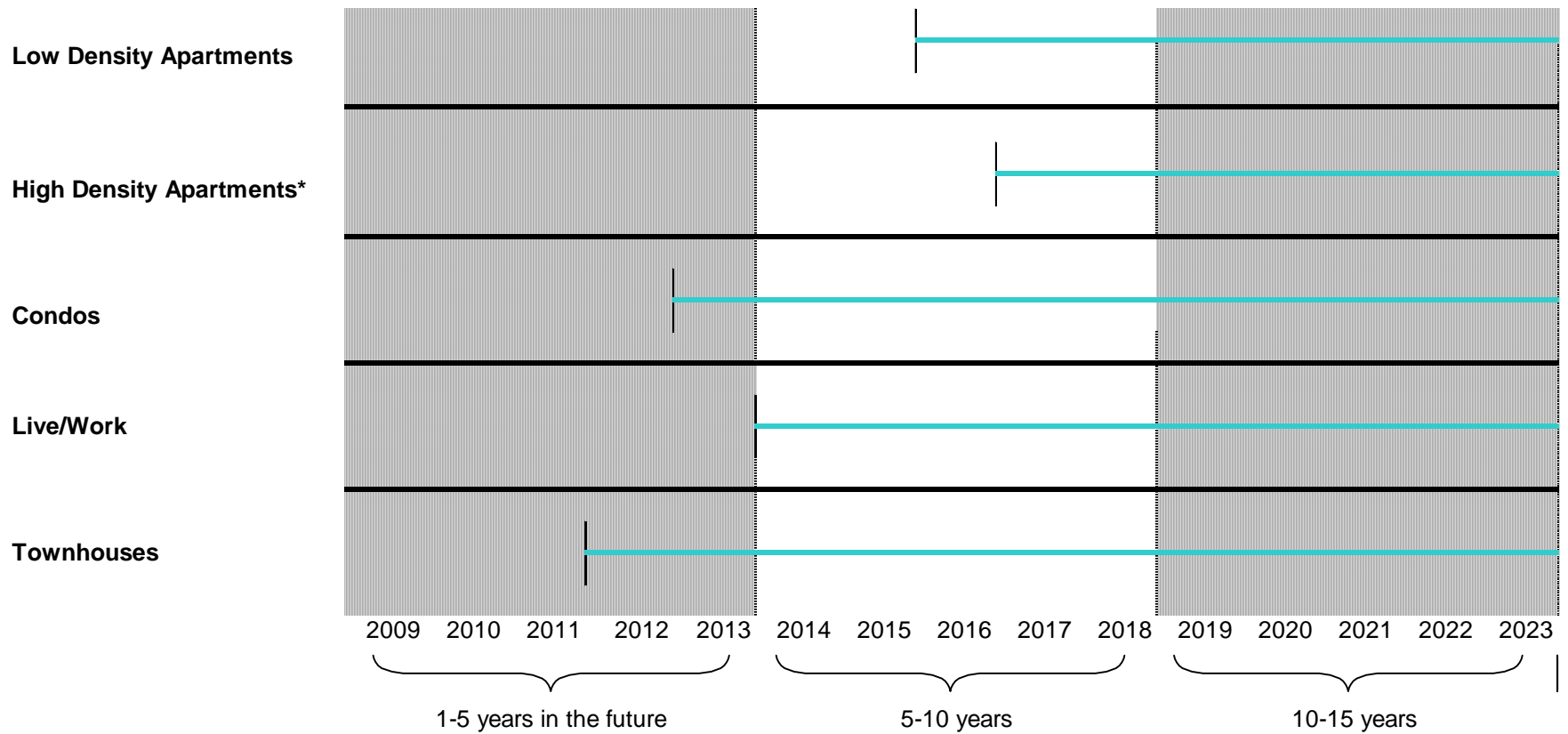
# Current



# Future Vision



# Projecting Future Feasibility



# Food for Thought

1. Planners and communities need to be realistic about what kinds of development are likely to be feasible in both the short and long term
2. The best way to enable higher density development is to think more broadly than individual projects and to promote quality, mixed-use neighborhoods
3. Community benefits, including affordable housing, should be dealt with holistically, not on a project by project basis
4. Transit is an important opportunity
5. In some places, government may need to take a more proactive role in encouraging density

