



# The Concept and Drivers of Mixed-Use Development

*Insights from a Cross-Organizational Membership Survey*

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**Abstract:** Mixed-use development is quickly establishing itself as a distinct product type and a growing trend that is transforming the real estate landscape. To assess a broad spectrum of problems and opportunities for mixed-use, BOMA (Building Owners and Managers Association International), ICSC (International Council of Shopping Centers), NAIOP (National Association of Industrial and Office Properties) and the NMHC (National Multi Housing Council) developed a cross-organizational membership survey. The results of this landmark co-sponsored survey—which established a new working definition for mixed use—are discussed along with some background on the history of this product type—which today accounts for about 20% of all new space built in the United States.

The recent real-estate industry interest and the exploding growth in mixed-use development is a counter trend to zoned single-use—which has been a planners’ prescription sewn into the fabric of U.S. society since the 1920s. However, pushed conceptually by Jane Jacobs’ influential 1961 book, *The Death and Life of Great American Cities*, the impetus for mixing uses to create more vitality in a community has been very slowly (until now) percolating through society. The mixed-use concept was not new even when Jacobs wrote of its virtue. Indeed, mixed-use development was traced “back to ancient times; the Athenian agora is an ancestor of such projects. Rockefeller Center, whose first phase was carried out between 1931 and 1940, was an early [modern] prototype in the United States.”<sup>1</sup>

In spring 2003, an American Planning Association survey of 1,000 public agency planners found that “since 1993, 81% [of local governments] have enacted a mixed-use ordinance, 72% require or recommend that bicycle and pedestrian trails be incorporated into new developments, 68% require open space to be preserved in new developments, and 62% have revised ordinances or plans to increase development densities to support public transit.” *But what is really meant by mixed-use and what are the driving forces behind it?*

To look at those questions, four real-estate trade associations—BOMA International, the International Council of Shopping Centers (ICSC), the National Association of Industrial and Office Properties (NAIOP) and the National Multi Housing Council (NMHC)—

jointly surveyed their respective memberships to understand what mixed-use means today and to explore what might be the factors for success with those projects. The survey<sup>2</sup> was conducted from July 11 through August 3, 2006 and included 1,004 respondents.

## Mixed-Use in History

Long before mixed-use was in vogue in the United States, the concept was embodied in the company town—which first appeared in the United States in 1645 with the Braintree Iron Works. In Margaret Crawford’s book, *Building the Workingman’s Paradise: The Design of American Company Towns*, she documented how some of the first “model towns” blended industry and housing. Indeed, one of America’s founding fathers, Alexander Hamilton, developed a 700-acre model town in 1792. Designed by Pierre L’Enfant—who had just finished his work on Washington, D.C.—Hamilton’s new industrial town, built along the Passaic River in northern New Jersey, was named Paterson after New Jersey Governor William Paterson.

Crawford observed that: “In 1930 the Bureau of Labor Statistics estimated that more than two million people were living in company towns. But shortly after, the effects of the Depression and changes in labor laws decreased their number, and the company town gradually disappeared from the American landscape.”<sup>3</sup> Helping to spur its demise was that the “availability of inexpensive automobiles greatly reduced the workers’ dependence on their employer. Used cars or Model T and A Fords bought on credit freed workers from the

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<sup>1</sup> Gerald D. Schwartz, “Mixed-Use Developments,” in *Market Research for Shopping Centers* (Ruben A. Roca, ed.), International Council of Shopping Centers, 1980, p. 153.

<sup>2</sup> Nearly four out of every five (77.8%) survey respondents were involved already with or were about to launch a mixed-use development at their company; 44.5% were developers, 12.5% owners/investors, 10.3% building operations managers, 4.9% architects and 1.3% land planners. Of those responding, mixed-use business accounted for 32.9% (weighted average) of overall business.

<sup>3</sup> Crawford, p. 2.



need to shop at the company store, worship at the company church, and, finally, to live in company houses.”<sup>4</sup>

Today, the development cycle is swinging back to urban living and the availability of mixed-use developments is an integral part of that process. Professors William Lucy and David Philips in their 2006 book, *Tomorrow's Cities, Tomorrow's Suburbs*, for example, argue that already there is clear evidence of the resurgence of the city and the decline of many suburbs (which itself was spurred about 50 years ago by the rise in the use of the automobile). The company town of yesteryear is, in many ways, the basis for the evolution of the mixed-use development of today.

### Definition By Consensus

In her article on the theory of mixed-use development, Jill Grant boils down the concept for mixing land uses to three decisions on intensity, diversity and density.<sup>5</sup> The intensity of land use is about the broad range of choices within a specific type of use. For example, it is argued that there could be a range of housing to meet various socio-economic classes, or there could be a range of retail types to increase the intensity. Diversity covers, as the word implies, the “compatible mix” of uses (housing, retail, restaurants, office, hotel, etc.). Finally, density is the compactness of the project (a vertical versus horizontal structure, for example).

Consistent with Grant’s theory, the cross-organizational mixed-use survey derived a consensus definition based on a range of possible characteristics for mixed use. That consensus definition, endorsed by a plurality or majority of members from BOMA, ICSC, NAIOP and NMHC, is: “*A mixed-use development is a real estate project with planned integration of some combination of retail, office, residential, hotel, recreation or other functions.*<sup>6</sup> *It is pedestrian-oriented and contains elements of a live-work-play environment. It maximizes space usage, has amenities and architectural expression, and tends to mitigate traffic and sprawl.*” In essence, this new working definition addresses the diversity and density issues, but leaves aside direct reference to the intensity of uses.

This working definition is more encompassing than previous ones<sup>7</sup> and does not set a minimum of three uses

as a “precondition” for being a mixed-use project.<sup>8</sup> This new working definition also does not limit the project to revenue-producing components only. Those two changes alone are a major deviation from what were viewed traditionally as mixed-use characteristics. The literature draws a line of distinction between “multi-use” and “mixed-use” projects—but this new definition seemingly side-steps that issue—possibly because it is too fine a distinction without significant difference. Multi-use is generally thought of as an additional real-estate property use which is small (in size or by revenue) relative to the entire project. But what is small and what is large?

Although it is clear that this new working definition has some unanswered questions associated with it, it is likely to evolve as the industry continually recreates an evolving image of mixed-use projects. For now, it serves today’s purpose as the best thinking by the industry on the main characteristics of that product type.

### Why is it Popular?

A second goal of the cross-organizational mixed-use survey was to assess why mixed use is so popular today. The assessment was for today and for looking ahead. The top three reasons cited for the popularity today were: (1) the live-work-play environment as a single location is convenient; (2) rising land prices are making more density necessary; and (3) the format is being encouraged by local public agencies (economic development, planning, zoning boards, etc.). Overwhelmingly, 93% of the respondents felt that the mixed-use concept would continue to grow as a share of future development over the next five years. The top reasons for that belief were the same as those for today, but with a different ordering. The No. 1 reason was the encouragement by public agencies, followed by rising land prices and then the convenience of the live-work-play environment.

### TOPS and Other Challenges for Mixed-Use

In the first multi-organizational mixed-used conference, held in November 2006 (where that consensus definition was unveiled), it was suggested by developers, planners and architects that four key challenges face developers in putting together a mixed-use project: Trash, Odors, Parking and Security, or “TOPS” for short.

<sup>4</sup> *ibid.*, p 201.

<sup>5</sup> Jill Grant, “Mixed Use in Theory and Practice: Canadian Experience with Implementing a Planning Principle,” *Journal of the American Planning Association*, Vol. 68 (No. 1), 2002, pp. 71-84.

<sup>6</sup> Although the most popular response (31.2%) endorsed mixed-use as a planned integration of some combination of retail, office, residential, hotel, recreation or other functions, the close “runner-up” with 29.9% approval was “some combination of retail, office, residential, hotel, recreation or other *revenue-generating* functions.”

<sup>7</sup> In Gerald Schwartz’s 1980 article, for example, he sketched out a mixed-use definition, which was based on three core characteristics: (1) three or more significant revenue-producing uses; (2) significant functional and physical integration; and (3) developed with a coherent plan.

<sup>8</sup> The Urban Land Institute, for example, continues to hold to the three or more uses as a key characteristic for mixed-use.



But even ahead of that decision phase in the development process, the top three cited challenges from the survey for mixed-use development were: (1) assembling the land and parcels; (2) maneuvering through zoning regulations; and (3) managing the financial challenges of a sequenced roll-out of project parts. The importance of that third challenge is underscored by Kemper Freeman—a developer and owner of mixed-use projects. Freeman advises would-be mixed-use developers to “be prepared that getting all of the mixed-use parts to perform evenly and kick in simultaneously is like a miracle. Those uneven sequencing or ramp-up periods can financially damage a project” if a developer is not careful.<sup>9</sup> As such, it was not surprising that 70% of the survey respondents also rated mixed-use projects as more financially risky than single-use ones.

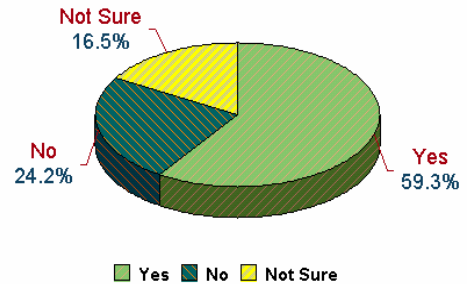
The good news is that lenders are savvier today than in the past about the viability of these projects. As a result, by a ratio of 4-1, developers see more lenders willing to finance the entire project today compared with recent years, which is attributed to a better understanding of the product potential by investors and lenders.

Nearly two-thirds of the respondents said that a mixed-use development will take longer (8.7% considerably longer and 54.8% longer) to complete compared with the same number of separate components. A like percentage said the costs of construction are also higher (8.9% considerably higher and 52.7% higher).

### Success Factors for Mixed-Use

What makes a successful mixed-use development? As shown in Chart 11-1, almost 60% of industry players and observers who participated in the survey felt that having public-sector involvement in a mixed-use project would help to make it more financially viable. Access to walking-distance mass transit was important too, with

**Chart 11-1**  
Is Public Sector Involvement Instrumental For Financial Success of a Mixed-Use Project?

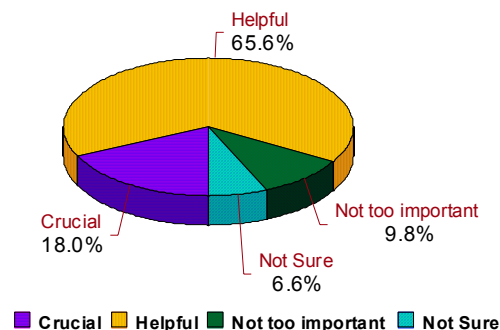


Source: Mixed-Use Survey (2006).

almost one-fifth of the respondents saying that it was “crucial” to the project and about two-thirds reporting it was “helpful” (see Chart 11-2).

Exploring some of the “must-have” factors for financial success, as shown in Chart 11-3, factors were ranked on a five-point scale ranging from extremely unimportant to extremely important. The top three answers were (1) having a major draw—employers, an

**Chart 11-2**  
Is Plentiful Access to Walking-distance Mass Transit Important for Financial Success of a Mixed-Use Project?



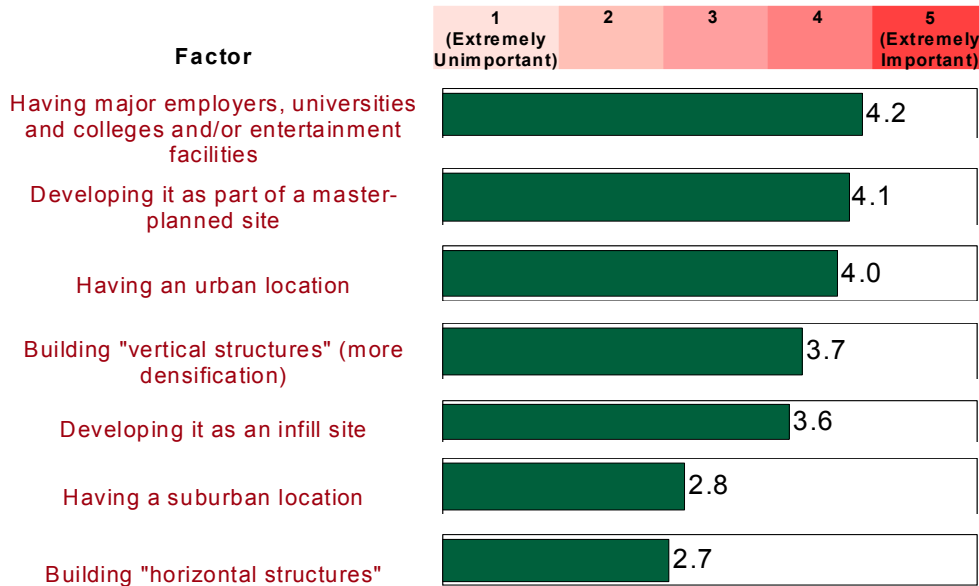
Source: Mixed-Use Survey (2006).

<sup>9</sup> “All in the Family: A Family-Owned Shopping Center Perspective,” Interview with Kemper Freeman, Jr., *Research Review*, International Council of Shopping Centers, Vol. 13 (No. 2), 2006, p. 4.



**Chart 11-3**

What Are the Must-Have Factors for Financial Success of a Mixed-Use Development?



Source: Mixed-Use Survey (2006)

academic institution, an entertainment facility; (2) developing the project as part of a master-planned site; and (3) having an urban location.

**Lessons Shared**

The lessons from this multi-organizational survey of mixed-use are many. Key among them for the success of a project, as summarized in Table 11-1, are to get public sector involvement, locate near mass transit hubs, have a draw, locate in an urban setting, think vertically and have *deep pockets*.

**Table 11-1**  
**Lessons Shared for a Successful Mixed-Use Development**

- Get Public Sector Involvement
- Locate Near Mass Transit
- Locate Near Big Employers, Colleges or Entertainment Facilities
- Find an Urban Setting Rather than Suburban
- Think Vertically
- Have Deep Pockets

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