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## Mixed-Use Development Holds Out Opportunities and Challenges

A builder and architect discuss pros and cons at IBS.

By:

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The odds would seem to favor mixed-use development and construction with the growing number of smart-growth oriented buyers. The combination of residential units with retail, offices, and other commercial space within a single building helps create walkable, robust communities that limit sprawl and reduce transportation-related energy costs.

"Mixed use is the real 'green,'" says Robert Cogan of BartonPartners, a Norristown, Pa.-based architect and planner. Cogan and David Bossart, a principal with Bossart Builders of Flanders, N.J., presented an informative seminar at the International Builders' Show on Monday that focused on the competitive advantages that mixed-use construction affords builders and developers.

The two speakers, though, pointed out some of the landmines that builders getting into mixed use must defuse. Sound mitigation, garbage and load areas, parking, and a different array of building materials are just some of the issues residential builders must cope with when they are adding commercial components to their projects. That's why Cogan and Bossart recommend that builders team up with retail partners that are already acquainted with the various obstacles and how to deal with them.

Cogan said that a number of factors are contributing to the heightened interest in mixed-use development. More people looking for options to live in or around cities again, and municipalities are buying into mixed use as a way to revitalize urban areas. However, Cogan says builders need to know what they want to achieve because "in my experience, municipalities don't really know what they are asking for" when it comes to mixed use.

Cogan devoted most of his comments to providing possible answers to the challenges that mixed use can pose to residential builders. Take, for example, the dimensions of the respective components: An ideal depth for a retail store might be between 80 feet and 100 feet, whereas the perfect depth for a residential unit might be 68 feet to 75 feet. Different retailers prefer different ceiling heights. And what does a builder do to keep the sounds and smells of a restaurant from seeping into a housing unit built above it? Cogan says that builders often find themselves engaging in what he calls "structural gymnastics" to deal with design, zoning, and architectural challenges that require innovative thinking and architectural finesse.

Then there's the issue of how the units are built. Most retail tenants are going to be more comfortable with steel-framed construction. And the higher the retail ceiling, the more costly it will be to accommodate the load for the residential above it.

As for parking, Cogan suggests that builders might consider a shared parking arrangement — that balances the needs of the residential owner and retail tenant — as a way to cut down on the land this project needs.

Bossart, whose company has built over a quarter-million square feet of commercial space as well as 50

churches and custom homes in New Jersey and New York, focused his comments on how dealers should assess the costs and benefits of mixed use. For one thing, they need to acquaint themselves with their market's demographics; he estimates that 25,000 square feet of retail needs between 3,000 and 5,000 residents in the area to support it.

Bossart also recommends that builders present their lenders with as much detail about the project as they can, including color renderings and even models. That information needs also to include total costs, market value, and projected profit the project would throw off. "You need to ask your lenders some questions, too," he explains, such as their rates, fees, advance schedules, and the conversion of the completed project to a permanent mortgage.

He cited three approaches to assessing the value of a mixed-use project: by income, by cost, and by sales. A key number in the first is net operating income, which factors in rents, expenses, and tenant turnover. He recommends that builders check the actual sales of similar buildings in their market, and adjust for location and other variables, to calculate revenue. He also notes that mixed use, on a cost basis, usually has a higher construction budget than pure commercial.

During the question and answer period, Cogan said that builders could get around local planners' trepidation about approving higher-density projects by providing them with comparative studies that show, for example, that owners of two-bedroom residential units consistently have fewer children than those owning three-bedroom units.

Another questioner wondered about the increased risk of vacancies with so many retailers failing. Neither speaker had an answer for this, but Bossart admitted that many of these kinds of projects need to offer retail tenants incentives to get them to move in before the build-out is completed. He recommends considering "quasi tenants" to fill in the spaces until the residential part of the project is finished

*John Caulfield is a senior editor with BUILDER magazine.*

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