The Art of the New Urbanist Deal

Three projects demonstrate the advantages and pitfalls of new development models.

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DURING THE LAST DECADE, new urbanism, a.k.a. smart growth, has come to the fore. More than a dozen states, including Oregon, New Jersey, Florida, and Wisconsin, have enacted legislation requiring communities to adopt comprehensive plans that promote densification of urban areas and discourage low-density suburban development. In some cases, so-called traditional neighborhood development (TND) has been written into zoning codes as a recommended category, and the federal Housing and Urban Development agency has adopted TND for its Hope VI public/private housing program. The Urban Land Institute regularly gives workshops on smart

growth. When the Disney Company decided to build a new planned community on its theme park property in Orlando, it adopted a new urbanist approach. The Congress for a New Urbanism estimates that 160 new urbanist-type planned communities have broken ground since 1982, and an additional 230 are in the permitting stage. Of course, 400 projects are not even a drop in the bucket compared to the tens of thousands of conventional master-planned communities that have been realized during the same period. Still, considering that two decades ago there was only one TND project, and that the terms new urbanism, traditional neighborhood development, and smart growth were little known, new urbanism has to be accounted a modest success; not a runaway popular phenomenon like the Internet or SUVs, but a limited success nonetheless.

At the same time, the economics of new urbanism are far from clear. Leaving aside the question of the real depth of consumer demand for this form of development (see "[Some] People Like New Urbanism," *WRER* Fall 1998), the on-the-ground history of new urbanist developments is checkered. As Andrés Duany, one of the founders of the new urbanism movement, admits, "There are spectacular successes and spectacular failures." The number of new urbanist projects is still far too small to produce generalized financial data, but it is useful to look at three different developments that contain interesting lessons for anyone interested in this type of development.

SEASIDE

Seaside has the distinction of being the first new urbanist project. Begun in 1982, it is located on the Gulf of Mexico in the Florida panhandle, roughly halfway between Panama City and Fort Walton Beach. While sometimes referred to as a town, Seaside is properly described as a vacation home community—only 6 percent of the residences are occupied year-round. However, the physical form of Seaside definitely resembles a rather old-fashioned small town. This theme is underlined by the old-fashioned screened porches and white picket fences, the cottage-like houses, and the intimate, narrow streets bordered by heavy undergrowth. The casual atmosphere recalls summer communities such as Nantucket and Cape May.

The site is 91.3 acres (74 acres developable). Seaside currently consists of 630 residential units (295 houses, 268 guest cottages, forty-nine apartments, and eighteen hotel rooms), about 45,000 square feet of retail, and about 18,000 square feet of commercial space. When the development is complete, it will have 846 residential units, about 77,000

square feet of retail, and about 28,000 square feet of commercial space.

Seaside, which was planned by Andrés Duany and Elizabeth Plater-Zyberk, pioneered several novel design ideas that set it apart from other second-home communities: the houses were designed by a variety of architects according to a strict architectural code; lots were small and houses were close together; homeowners were permitted to build a residential outbuilding in addition to the main house; and architectural quality was high, with lookout towers, porches, and custom construction details. Robert Davis, the developer of Seaside, did not build the homes. He had been a real estate developer in Miami in the 1970s and, having had a brush with financial failure, he was averse to debt. Since the land was a family inheritance, the only carrying charge was the $15,000 property tax. He developed the project slowly, initially selling only twenty to thirty lots a year and reinvesting the profits in infrastructure. He cut overhead to the bone. For example, since the lots were too small for septic tanks, the first group of houses was connected to a septic field located in an unbuilt portion of the site. Only after the number of sold lots increased did Seaside acquire a package sewage treatment plant (which was upgraded as the community grew).

The first lots sold in 1982 for $15,000, slightly higher than the $10,000 price of lots in a nearby planned community. Since the Seaside lots were smaller (5,000 square feet compared to 8,000 square feet), the actual price per square foot was actually considerably higher ($3/square foot vs. $1.25/square foot). In time, Davis was able to increase prices, selling lots that were several hundred feet from the beach at beachfront prices. By 1992, the average price of new lots sold was $130,000 and by 2001 it was $690,000. Gulf-frontage lots, which Davis wisely held on to, are now selling for close to $2 million. Today, twenty years later, the average price of a Seaside lot that once sold for $3/square foot is estimated to be $119/square foot. Not surprisingly, Seaside last year saw its first tear-down (or, rather, haul-away, since the original house was moved rather than demolished).

The rise in land value is reflected in the resale prices of the houses built at Seaside. Small houses on small lots are selling for $400 to $800/square foot, and larger houses with direct views of the Gulf are in the $1,000 to $2,000/square foot range. A small (600-square-foot, 1-bedroom) cottage facing the beach recently sold for $1 million. This increase in value reflects a number of factors: the growing prosperity of Atlanta; Birmingham, Alabama; and Jackson, Mississippi, where many of the homebuyers live; the increased attraction of northwest Florida generally; and the allure of Seaside itself.

The rental program, which in 2000 grossed $17 million, is an important part of the Seaside model. Currently, more than 65 percent of the homeowners participate in the program. The developer operates the program, which resembles a hotel, with housekeeping and room service, and keeps 30 percent of the adjusted gross (less costs and other fees). Initially, the rental program was not profitable from the developers' point of view, but it had a number of other benefits: it provided a continuous supply of customers for the stores in the town center; it drove up house prices since buyers benefited economically from the rental income (Davis estimates that the effect on house prices has been to increase them 30 percent to 40 percent); and it expanded the potential market for homebuyers (in 2000, more than 150,000 visitors stayed at Seaside). According to Davis, since about 1998, the residential rental program has been "mildly profitable." In addition, a number of residential rental properties are owned directly by the developer (a beachside cottage rents for $350/night during the season, which runs from February to October); this part of the program has been "pretty profitable."

The Seaside town center was initially unsuccessful. The architectural concept was four-story buildings with retail space on the ground level, and commercial and residential above. When the first building was completed, it proved too expensive for the small local businesses. As an alternative, Davis, assisted by his wife Daryl, developed a smaller-scale retail area on a narrow strip of land between the highway and the beach. It resembles an outdoor market, and consists of tiny (1,000-square-feet) temporary kiosks (actually converted shipping containers dressed up with canvas awnings). As attendance at this outdoor market has grown, the kiosks have been relocated and extended; as businesses have become more successful, they have moved to larger premises in the town center. "Rome wasn't built in a day," observes Davis. "We found that we could put some flesh on the bones of the town center with temporary buildings." In time, the temporary buildings were replaced with permanent structures. The Seaside retail, consisting of forty-two tenants, has become an important profit center, in 2000 generating annual sales in excess of $20 million, or about $300/square foot (for a 9-month season). The businesses include restaurants and food services (8), clothing and accessories (10), gift and specialty stores (9), as well as a bookstore and a grocery. Davis estimates that about half the sales are to visitors. In addition to the retail and commercial space, Seaside has a meeting hall (built as an amenity by the developer), a chapel (built by the homeowner association), and a small school (built by the developer with proceeds from the movie company that used Seaside as the setting

for *The Truman Show,* and operated as a charter school by the county). There is also a swim and tennis club, built and operated by the developer and funded by memberships and daily fees from rental cottages.

"If you're building well, you will see changes in value," Davis observes. In 1981, his land was valued at slightly less than $1 million. In 2000, the assessed value of the entire development was in excess of $200 million, and the value of the project at build-out is estimated to be $370 million.

Of course, Seaside is an unusual project. Davis is an innovator, which in real estate is risky, hence rare. Without a low-debt, go-slow policy, he would probably have failed during the recession of 1990, or would have been obliged to severely compromise his original vision. His development strategy was enabled by the fact that the land was a family inheritance, and that there was no time pressure to pay creditors or investors. Moreover, there was no county zoning in place in 1981, which allowed the planners considerable latitude in introducing narrow streets, small lots, outbuildings, mixed use, and so on. So, it is all the more remarkable that this small, idiosyncratic project has become a model for other vacation-home communities. Seaside lookalikes have sprung up along the Gulf Coast, notably in Carillon Beach (104 acres) and Rosemary Beach (107 acres). The most ambitious project is immediately adjacent to Seaside, the 499-acre WaterColor. This second-home development is being built by Arvida, the development arm of the St. Joe Company, whose CEO, Peter S. Rummel, oversaw the construction of Celebration for Disney. Upon build-out, WaterColor will have 1,140 homes and 100,000 square feet of commercial and retail space. Much of the town center, including a sixty-room beachfront hotel and multi-family apartments over retail, is complete. While WaterColor lacks some of the bohemian charm of its homemade neighbor, it demonstrates that the Seaside model can be scaled up and delivered in a more conventional manner by a large publicly-held corporation. St. Joe owns more than a million acres of undeveloped land in northwest Florida, and is currently planning about 20 different projects, with 10,000 homes permitted so far. A $200 million commercial airport near Panama City is in the final stages of approval.

KENTLANDS & LAKELANDS

Seaside was widely publicized in the national media. Thanks to the proselytizing of Duany and Plater-Zyberk, and Davis' marketing savvy, Seaside was not seen merely as a successful resort, but

rather as an experiment in town planning. *Time* magazine speculated that "the 1990s may be ripe for the Seaside model… to become the American planning paradigm." That clearly was overstating the case, but during the late 1980s, Duany and Plater-Zyberk were hired to design a dozen master-planned communities. The first to be realized (many remain unbuilt) was a project named Kentlands in Gaithersburg, Maryland, outside Washington, D.C. Construction started in 1990. The 352-acre site (236 acres developable) included 2,051 residential units in a mixture of detached houses (477), rowhouses (378), multi-family condominiums (560), apartments (590), and live/work units (46). The planned town center included 450,000 square feet of retail.

In terms of design, Kentlands was a success. It demonstrated that many of the features of Seaside could indeed be applied to a "primary residence" master-planned community. The houses were built by commercial homebuilders, not individually designed by architects as was the case for the majority of the houses at Seaside, yet the result incorporated the same lively variety. Typical lots were small, 1,600 square feet for a rowhouse, up to 3,500 square feet for a large single-family house. Nevertheless, initial prices for rowhouses were $195,000 to $215,000, and detached houses ranged from $195,000 for a cottage on a 20-foot-wide lot, to $430,000 for a four-bedroom house on a 10,500-square-foot lot. The architectural style was more or less Federal, which is common in the Washington, D.C. area, but the compact appearance of the streets and village greens gave the definite impression of a traditional small town. Kentlands included an elementary school, a church, a clubhouse and recreation center, and extensive recreation areas, including three lakes.

Kentlands was not a financial success, as the recession of 1990 adversely affected home sales. Also, as the economy slowed, mall developers were reluctant to take on the town center, whose sale was critical to the overall project's financial health. Kentlands was the developer's first large project, and he lacked both experience and capital. In 1991, underfunded and unable to weather the economic slow-down, the project was taken over by its main lender, a local bank. Over the next several years, the bank completed the project more or less according to plan, although opting to replace (in the same location) a Main Street-type town center, part of the original design, with a 300,000-square-foot conventional shopping center.

Immediately adjacent to Kentlands was a 450-acre parcel owned by the National Geographic Society, which had its subscription service in two large low-rise office buildings. When the National Geographic decided to close the facility in 1995, the

land was purchased for $50 million by Gaithersburg Community Associates, a partnership of two local developers, Natelli Communities and Classic Community Corporation, with Colony Capital of Los Angeles as their equity partner. According to Thomas N. Natelli, they were not initially interested in new urbanism. "It was a great infill site, in a high-growth area surrounded by urban fabric. We had never done a TND, but since the sentiment of the city of Gaithersburg was towards new urbanism, it was clear that this was the right approach."

The developers re-sold the existing National Geographic buildings and 100 acres for $23 million, and successfully negotiated a change from commercial to mixed-use zoning for the rest of the site. Of the remaining 350 acres, 110 acres were wetlands, twenty acres were sold to the city and state for a recreation area, and 220 acres were developable, about the same size as Kentlands. The plan, laid out by Duany and Plater-Zyberk, called for about 1,572 residential units: single-family (511), multi-family (364), rowhouses (444), and apartments (253).

The net site acquisition cost was $27 million, site improvement costs were $34 million, and soft costs were $20.5 million, making a total project cost of $81.5 million. The project was financed with a conventional bank loan at 65 percent loan to cost. The developers estimated that in the first phase they needed to sell 300 to 500 lots annually. To ensure the construction and sale of this many lots in the risky first phase of the project, the developers of Lakelands decided that they would have to attract well-financed production homebuilders such as NV Homes, Ryan Homes, and Ryland Homes. Large-scale production homebuilding requires a greater degree of standardization and repetition than was found in the earlier TND projects. It also requires using lower-cost building materials such as vinyl siding. In the name of architectural authenticity, Kentlands (at least before its bankruptcy) had mandated painted wood siding and brick, and features such as operable window shutters, which made for attractive but expensive houses. At Lakelands, the houses are plainer and less distinctive. But as Natelli points out, "We're marketing the community, not the architecture. What we're selling is lifestyle."

Natelli undertook two strategies to raise architectural standards. He negotiated with the national homebuilders, providing lower lot prices in return for their substituting wood for vinyl trim, and providing special features, bay windows, wrap-around porches, and additional details in certain key locations. This would avoid the "assembly line" image that is common in many planned communities. He also reserved about 10 percent of the lots, likewise in key locations, for a select-

ed group of small, local homebuilders, who were able to provide slightly more custom-finished details.

Although the national homebuilders were skeptical at first, the strategy proved to be successful; in the first three years they sold about 400 units a year. The high absorption rate was helped by the inclusion of no fewer than seven different residential product types appealing to a wide range of homebuyers. In a conventionally planned community, where different product types are located in separate clusters, this would mean investing in a large amount of infrastructure. In Lakelands, row houses, duplexes, and single-family houses are side-by-side. First-phase lot prices ranged from $62,500 (18' x 100') for rowhouses, to $105,000 (70' x 100') for single-family; home prices ranged from $200,000 to $700,000. The developers held back lots for later phases to take advantage of increases in price, which were in the 40 percent to 60 percent range. The project is expected to be completed in about one year.

In addition to conventional single-family and rowhouses, there are also a number of very compact house types, which means that the "downtown" area has a 568 units on only eighteen acres, a gross density of thirty-one units/acre, with no building taller than four floors. There are unusual four-story rowhouses on extremely small lots, with garages on the ground floor and balconies rather than gardens. There are also stacked two-story rowhouses, a common regional type. There are 253 apartment units clustered in one block in several three-story buildings. A new product type is a live/work unit, a three-story townhouse in a dense, downtown type of location, whose construction allowed a combination of residential, commercial, and retail uses. Code and safety issues required vertical and horizontal fire separation, sprinklers, and commercial-quality construction, which raised the sales price to $400,000 to $450,000. Although the developers were unsure about the strength of demand for this housing type, it proved a very popular niche; the sixty-six units that were built sold quickly. Some of the ground-floor uses include: professional offices (lawyers, dentists, realtors, an optometrist, a mortgage company); destination retail (an art gallery, a cellular phone store, a tile store); and services (a spa, an allergy care center). The upper floors are usually residential, sometimes commercial. The owners of the buildings tend to be the business on the ground floor; the upper floors are generally leased with almost no owner actually living "above the store."

The residential areas in Lakelands incorporate a familiar new urbanist mix: small lots, a mix of product types, and traditional architecture. As in most new urbanist planned communities, all streets

have sidewalks and there are many small parks and green spaces. On-street parking is permitted, and 75 percent of the homes have rear garages accessed by 14-foot-wide paved back alleys. This extra infrastructure is estimated to have carried a 5 percent to 7 percent premium, compared to a conventional project.

The most difficult part of a new urbanist project to develop is the town center. On the one hand, being able to walk to a town center is one of the central marketing features of a TND (even if it is doubtful that people will carry heavy purchases home on foot). On the other, the project population is rarely large enough to support much more than a corner store. Yet a variety of retail is needed to create the required townlike atmosphere. Since developers cannot afford to subsidize the town center, in order to succeed financially the center must attract people from outside the immediate community. This requires a peripheral location with high visibility, similar to a shopping mall. To achieve this, the town center must usually be located not in the center but on the edge. The challenge to architects and developers is to create town centers that feel "local" yet are really "regional."

The town center at Lakelands, which occupies eighteen acres, was designed and permitted for 350,000 square feet of retail and 20,000 square feet commercial, and was sold by the developers to a shopping center developer. All spaces are leased, but they are housed in individual one-story buildings facing sidewalks and streets. There are a couple of large parking lots on two sides of the center, one of which is next to a free-standing supermarket. The streets recall a small town. Unfortunately like the streets of most small downtowns, they are also empty (at least on a weekday at noon, when I was there). Certain functions appear to be successful: an eight-screen movie theater (which is already planning to add two screens), a fitness center, a café, restaurants, as well as a number of destination shops: art galleries, jewelry stores, beauty salons. What has not worked here is the kind of store that depends on browsers simply dropping in. Even with a 1,000 units in Lakelands, and another 2,000 in Kentlands, there is simply not enough foot-traffic to support a thriving retail trade.

Many unanswered questions remain regarding the creation of town centers in master-planned communities. Since there will never be enough people living close by to support significant retail, how to attract shoppers from far away without losing the desired small-town flavor? How to deal with parking? (Lakelands has 30-minute on-street parking, which doesn't seem convenient.) People accept walking great distances from parking lots to shopping malls, but they expect to park in front of a store when it's on a street. They associate

traditional downtowns with lively, almost messy vitality, which is hard to deliver in a structured and managed shopping center. At Lakelands, the street lined with live-work units, with its variety of uses—a fresh pasta supplier next to an orthodontist—feels more townlike than the town. As Natelli observes, "New urbanism still hasn't figured out how to do town centers. The only one I know of that's really successful is at Celebration, and its retail is supported by tourism."

HAILE VILLAGE CENTER

Haile Village Center is one attempt to find a new town center model. Haile Plantation is a 1,700-acre, 2,700-unit master-planned community near Gainesville, Florida, started in the late 1970s. It is basically a golf course community, with an emphasis on open space, recreation areas, and natural landscaping. Fifty acres (42 acres developable) was set aside for a village center. In 1994, the developers of Haile Plantation, Robert Kramer and Matthew Kaskel, began construction of Haile Village Center. In the manner of a TND, it incorporated a mixture of commercial, retail, and residential uses. The estimated value of the built-out project, which today is about 70 percent complete, is $75 million.

The design and planning (by Kramer and Kaskel) of Haile Village recall a New England village, with two- and three-story buildings lining a gently curving main street. The main street is intersected by a village green at the center, fronted by a meeting hall. The streets immediately behind the main street are lined by a variety of residences. Structures are generally small to preserve the small-town atmosphere. (In the case of the apartments, this made it difficult to attract national homebuilders.) Parking is on-street and in lots that are screened from the street and located behind buildings inside the block. The cost of construction is higher than conventional (about $70/square foot vs $50/square foot), and has produced particularly attractive surroundings, with brick sidewalks, generous plantings, and authentic details. The higher quality has resulted in slightly higher land selling prices than are typical in the Gainesville area, $4.75/square foot vs $3.75/ square foot.

Haile Village Center consists of commercial space (165,000 square feet) and retail (30,000 square feet) housed in mixed-use buildings. The second floors of these structures also contain 145 rental apartments. Rental of these units has been very successful. A typical lot suitable for 2,000 square feet of offices, with apartments above, sells for $100,000. There are sixty-five single-family home lots, thirty-two rowhouse lots, and twenty-eight condominium units. Typical house prices range from $175,000 (1,600 square feet)

to $345,000 (3,100 square feet). The houses have rear alleys that give access to garages. Garages have second-floor apartments that may be rented, although most are used as home offices and guest rooms. The mixed-use zoning permits all residences in the village center to be used as bed-and-breakfasts.

Unlike the town center at Lakelands, which was built all at once, Haile Village was developed slowly, over about a decade. The incremental development and the mixture of owners and tenants gives Haile Plantation a sense of authentic urbanism. According to Kramer, the long-term goal was to retain income properties, selling only land to supply needed cash flow. In the latter cases, the developers provided design/build services; otherwise they acted as landlords for the leased offices and apartments. Private equity was well under $1 million, and a local bank provided financing in small increments until the novel mixed-use proved itself. The land was originally bought for $2,500 per acre and is selling for more than $300,000 per acre; the value of the project at build-out is estimated to be about $500,000 per acre.

Haile Village has suffered from one severe limitation: lack of visibility. Local zoning laws prohibited access and exposure to an adjacent busy street, which made it difficult to attract high-volume retailers such as supermarkets and convenience stores, despite the presence of more than 5,000 potential customers in adjacent Haile Plantation. The result is that, while the center has successfully attracted professional offices of dentists, doctors, lawyers, veterinarians, and stockbrokers, "We don't have as much retail as we would like," says Kramer. There is a bank, a restaurant, and a daycare center, but no drugstore or hardware store. So far, the village center has attracted only "destination retail" such as a card shop, a beauty salon, and a spa. The relatively small size of the blocks put restrictions on the size of floor plates and amount of parking, which also limited the variety of potential retail tenants.

CONCLUSION

New urbanism proposes new models for the urban design of master-planned communities and town centers. Yet it cannot avoid adhering to the old rules of real estate development: maximize return on investment, minimize risk, attract homebuyers, fulfill consumers' expectations. While many of the early projects, such as Seaside and Haile Village Center, were developed slowly over relatively long periods of time, it is unclear if slow, incremental development is a necessary feature of new urbanism. Projects such as Lakelands, which have followed a more conventional accelerated schedule, suggest that this is not the case. When new urbanist projects

have access to capital, development takes place at a fast rate. There does appear to be a cost premium attached to new urbanist projects, which is partly the result of more complex, higher-density planning, and partly the result of higher-quality construction. "We thought it would be a 20 to 30 percent premium," says Tom Natelli of Lakelands, "but it turned out to be much smaller, 5 percent to 7 percent." In general, this premium appears to be covered by the increase in value that seems to be attached to new urbanist projects. This suggests that the developer of a new urbanist project does need a longer time horizon to fully realize the financial benefits of this approach.

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