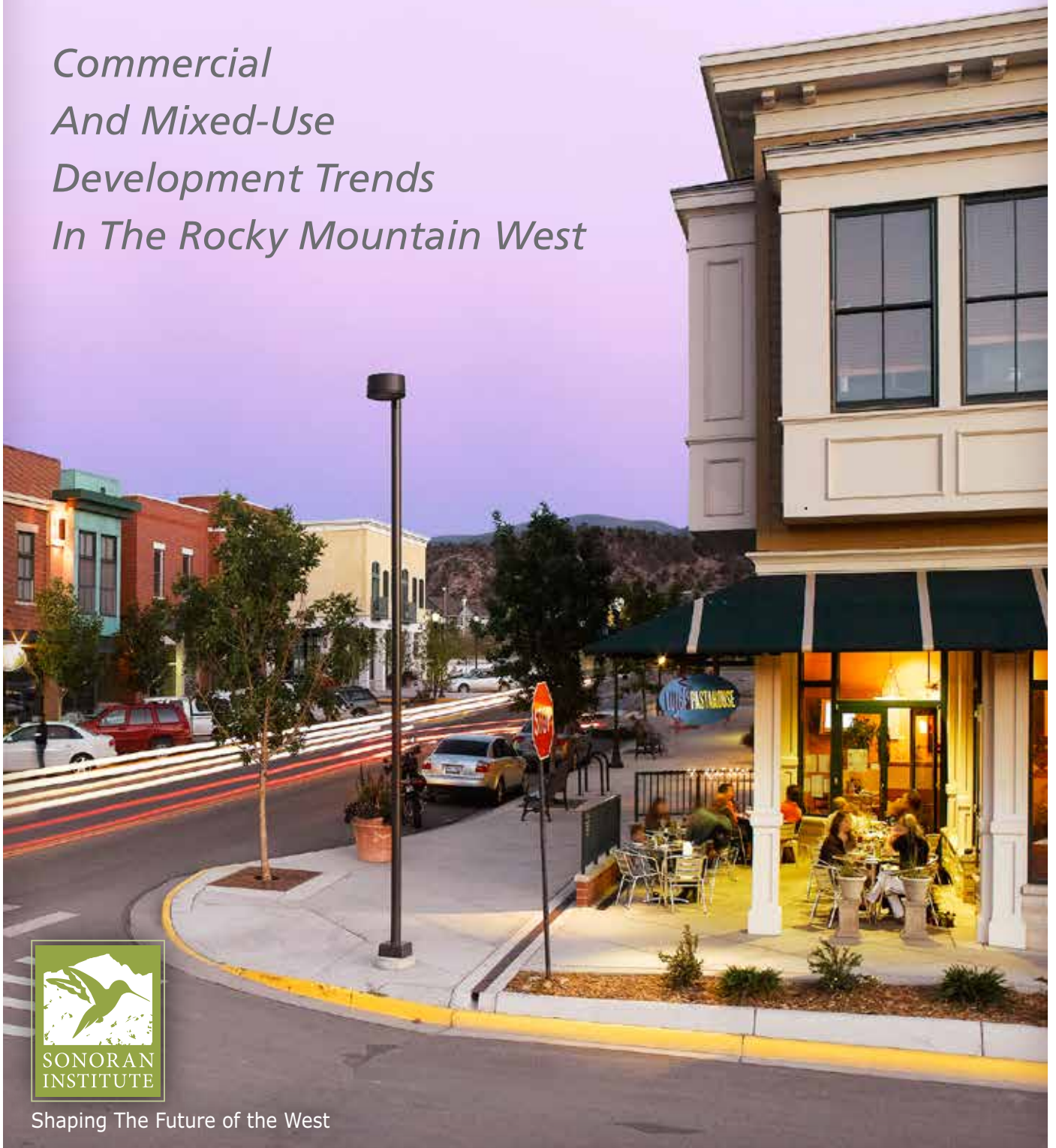


RESTORE

*Commercial
And Mixed-Use
Development Trends
In The Rocky Mountain West*



Shaping The Future of the West

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Sonoran Institute Mission and Vision



The Sonoran Institute's mission is to inspire and enable community decisions and public policies that respect the land and people of western North America. Facing rapid change, communities in the West value their natural and cultural resources, which support resilient environmental and economic systems.

Founded in 1990, the Sonoran Institute helps communities conserve and restore those resources and manage growth and change through collaboration, civil dialogue, sound information, practical solutions and big-picture thinking.

Our passion is to help shape the future of the West with healthy landscapes, livable communities, and vibrant economies.

The Sonoran Institute is a nonprofit organization with offices in Tucson and Phoenix, Arizona; Bozeman, Montana; Glenwood Springs, Colorado; and Mexicali, Baja California, Mexico. For more information, visit www.sonoraninstitute.org.

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RESTORE

Commercial And Mixed-Use Development Trends In The Rocky Mountain West

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EXECUTIVE SUMMARY

People's attitudes about where they want to live, work, shop and play are changing. According to the National Association of Realtors (NAR) "2013 Community Preference Survey," 60 percent of respondents favor a neighborhood with a mix of houses, stores and other businesses that are within walking distance, rather than neighborhoods requiring driving between home, work and recreation. Respondents indicated that while the size of a home or yard does matter, most are willing to compromise size for a preferred neighborhood and less commuting. For example, 55 percent of respondents were willing to forgo a home with a larger yard if it meant they could live within walking distance of schools, stores and restaurants.



These trends are occurring in the Rocky Mountain West as well. The Sonoran Institute's 2013 report, "RESET: Assessing Future Housing Markets in the Rocky Mountain West," found that an increasing segment of the population wants to live in close proximity to their workplace, restaurants, schools, stores, entertainment and recreational opportunities. Similar to the NAR study, 90 percent of RESET's survey respondents said they would prefer living within an easy walk to other places in the community. More than nine out of ten people said they prefer neighborhoods closer to open space, trails and recreation. They are also willing to pay more—on average 18.5 percent more—to live in a "walkable" neighborhood.

The influence these trends are having on housing demand and residential development has been well chronicled. The implications for commercial development have received less attention, but it is clear that the commercial landscape is also changing. Along with economic, demographic and consumer preference trends, technology – particularly online shopping – is having a significant influence on consumer behavior that is beginning to change commercial real-estate markets. Among other things, these changes are driving retailers to look at smaller formats in areas with higher foot traffic, such as mixed-use areas where housing and office space is located near stores.

While consumer and business interest for places that offer a mix of land uses (e.g., office, retail, entertainment and housing) is clear, getting mixed-use off the ground is a struggle in many markets, particularly in smaller cities and towns. Recognizing the importance of these trends on communities around the West, the Sonoran Institute commissioned MXD Development Strategists to analyze commercial market trends in the Rocky Mountain West, with a focus on the role of mixed-use development. The study was designed to address the following questions:

- **How are commercial markets changing, both nationally and in the Rocky Mountain West?**
- **Is mixed-use development occurring in the Rocky Mountain West, and if so, how successfully?**
- **What are the opportunities and challenges associated with mixed-use development?**
- **Are some communities better suited for certain types of mixed-use development than others?**
- **What are common elements of and strategies for successful mixed-use development?**

The study examined broad trends in the mixed-use development landscape, and through specific case studies in the Rocky Mountain West. In addition to conducting research and data analysis, MXD interviewed county and municipal officials, planners, real estate brokers, consultants and developers across four Rocky Mountain West states.

The research focused on communities in Montana, Wyoming, Idaho, and western Colorado, including a cluster analysis, which grouped the communities into three tiers based on population, growth, income, age, and education characteristics. The analysis below provides recommendations for the types and scale of mixed-use development that is most appropriate in different types of communities, which is intended to help both the public and private sectors set realistic expectations for the type of projects that are most likely to succeed in different markets.

THE REPORT'S MAJOR FINDINGS INCLUDE:

As with residential, the nation's commercial market landscape is changing.

Retail stores and shopping centers are here to stay, but retailers have made significant changes in response to the growth of online retailing and they need to continually redefine their stores' identities to stay up-to-date with emerging trends. One of the largest adjustments has been a general downsizing in store size, as the requirements for storage space, and even floor space overall has reduced.¹ Across North America, retailers are shifting from "super-sized" to "right-sized" stores. Larger retailers are no longer required to keep vast amounts of stock available on-site for potential shoppers. This has led not only to smaller stores with less inventory, but also to fewer stores in general.

The two dominant population cohorts in the U.S., Generation Y and Baby Boomers, will continue to drive a shift toward mixed-use development.

Generation Y displays a lifestyle preference for walkability and the sense of place and vitality that come with mixed-use development. Their preferences and behaviors have already prompted changes to the retail and entertainment industries, triggering the "right-sizing" of retailers' commercial real estate space and the hybridization of entertainment/retail/restaurant concepts, among others. Baby Boomers, meanwhile, increasingly require and enjoy the conveniences of having their home in close proximity to stores, healthcare facilities, and other daily needs. As Generation Y continues to gain buying power and Baby Boomers continue to lose physical mobility, mixed-use development will become increasingly common.

The public sector is generally receptive to mixed-use development and many communities have adopted plans that encourage mixed-use in certain areas. However, while some communities in the Rocky Mountain West have made the necessary reforms to local codes, many still need to update outdated zoning to enable mixed-use neighborhoods.

Generally speaking, the study found that municipal planners and policymakers understand and appreciate the benefits of mixed-use development. Most local officials view mixed-use projects or districts in an economic development context, though its role in improving walkability and encouraging more efficient development patterns is generally understood as well. Several Rocky Mountain communities have reformed their development codes to enable mixed-use development, but many have not. However, those policies and codes that are in place can be used as models for other communities.



Certain types of mixed-use development are more feasible in some places than others, and matching the appropriate type and size of development to the community is essential.

The study identified seven mixed-use development types: vertical, horizontal, lifestyle center, historic urban, Main Street commercial, live/work and complete neighborhood. In this analysis of Rocky Mountain West communities that have implemented mixed-use development, MXD found that the communities with larger, wealthier, younger, more educated and growing populations offer the greatest capacity for successfully pursuing all of these development types. However, even in the smallest communities, mixed-use development holds promise in the form of Main Street revitalization and the redevelopment of historic buildings.

A proactive approach is needed to realize the opportunities of mixed-use development.

Notwithstanding the consumer appetite and public sector support for it, mixed-use development is still a fairly novel concept in the Rocky Mountain West, and for this reason and others it can encounter a variety of barriers. With what is often its toughest hurdle—financing—mixed-use development commonly faces the chicken-and-the-egg dilemma: Banks are reluctant to provide financing because there are few examples on which to judge risk. Meanwhile, without financing, potential success stories cannot get off the ground.

Other reasons mixed-use development has had a difficult time gaining traction in the region include:

- Federal policies sometimes restrict the amount of commercial space in mixed-use residential projects.
- Higher development costs for certain types of mixed-use development.
- Many commercial developers continue to only build what is familiar.
- Most communities have large amounts of land available for development, and therefore a smaller market for higher-density commercial development.
- In much of the region, lease rates are similar for mixed-use and single-use commercial spaces.
- Anchor tenants, especially widely recognized national names, may be skeptical of mixed use developments due to a lack of familiarity.
- Zoning issues in some communities can cause delays and added costs.
- Some communities simply do not have sufficient population density for some types of mixed-use development.



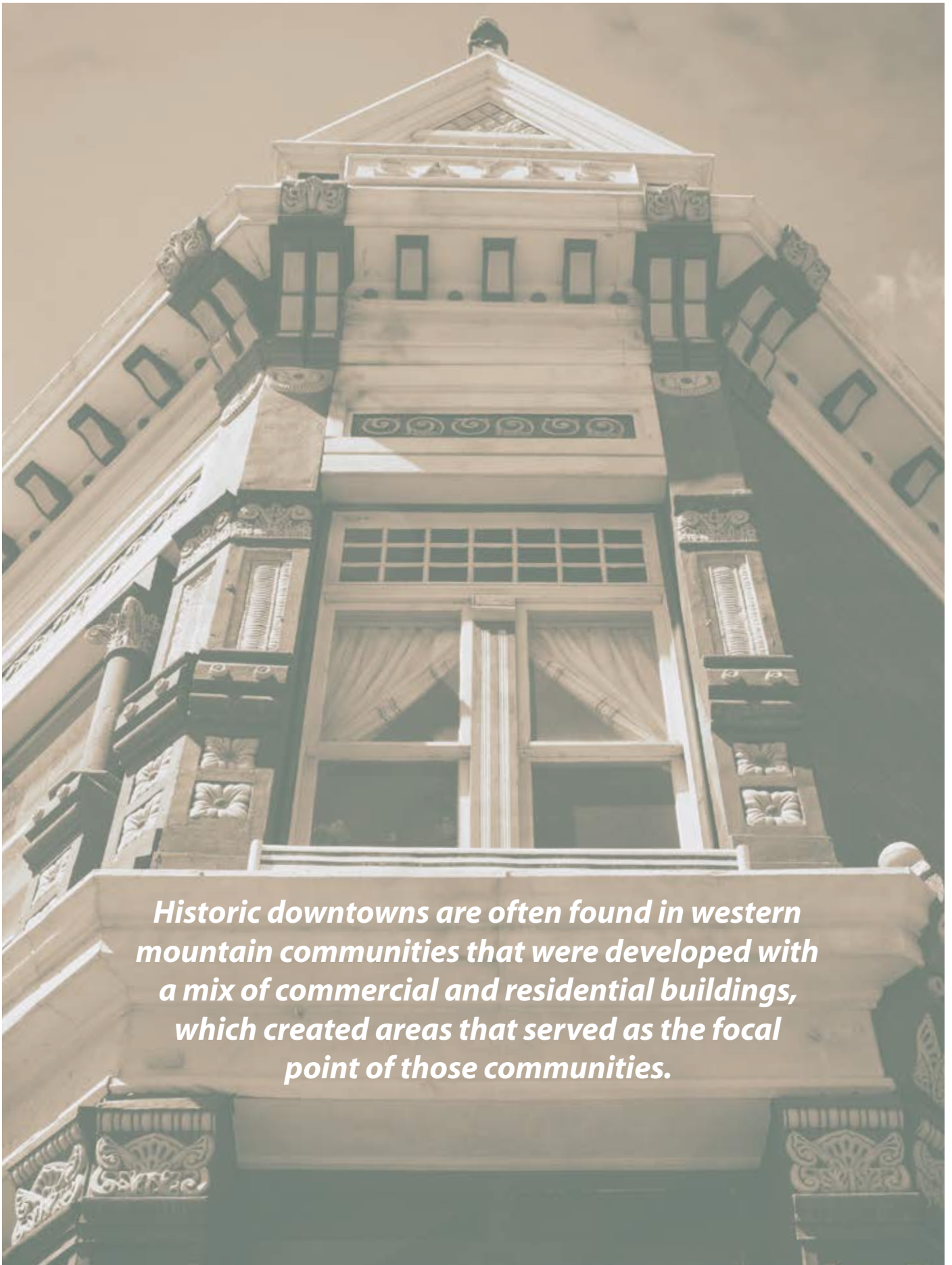
Responding to Market Opportunities

As with any type of real estate project, location matters. What works in a large city like Boise, Idaho may not be feasible for a small one like Red Lodge, Montana. Nevertheless, communities of all sizes are interested in the benefits – economic and otherwise – of mixed-use development. With this in mind, the report outlines strategies to help overcome challenges facing mixed-use development in a variety of communities. A first step is matching the appropriate development type to the characteristics of the community. In addition, developers and local officials interested in mixed-use projects should take the following steps:

- Perform a detailed market analysis and feasibility assessment to understand development potential in a given community. Positioning development to meet market conditions and demand is essential. In some cases, communities or economic development organizations may underwrite this type of analysis to facilitate the private sector.
- Adopt the necessary zoning and policies to enable mixed-use development in appropriate locations.
- Pursue public/private partnerships (P3s). These partnerships balance risk, costs and benefits among all invested stakeholders, helping projects get underway. P3s can offer tax breaks and assistance in creating necessary public works infrastructure that can be too costly for a single investor or developer. Likewise, pursuing joint ventures with other developers who bring needed expertise in the various land use types that will be part of the development.
- Engage the community throughout the planning and design of the project to build interest and support.
- Create a development phasing timeline to ensure various parts of the project are constructed when market demand is present. Keep the project flexible and adaptable as market conditions change.
- Educate both public and private sectors on the viability of mixed-use developments to build familiarity within the financial and real estate sectors and the broader community.

It is the intent of this report to be a helpful tool for municipal planners, local officials, developers, architects, financial lenders, local citizens and other stakeholders in improving understanding of this emerging trend.





Historic downtowns are often found in western mountain communities that were developed with a mix of commercial and residential buildings, which created areas that served as the focal point of those communities.

INTRODUCTION

Shifting Market Trends and Commercial Development

For the past 60 years, the North American commercial landscape has been dominated by just a few formats, including suburban strip malls, big-box retail outlets, large, anchored indoor malls and suburban office parks. During the same period, these formats tended to outperform the more traditional commercial and economic centers of towns and cities: downtowns, main streets and core business districts. This shift in favor coincided with a broader phenomenon of suburbanization throughout the country.

These trends are well documented in both commercial and residential real estate. However, a variety of data and recent studies suggest that trends are shifting yet again in response to several market drivers. Demographic and lifestyle factors, combined with economic conditions and consumer preferences, are changing the market. A growing number of consumers are interested in mixed-use places where commercial destinations are integrated with, or in walking distance of, the residential neighborhoods where they live. In fact, the National Association of Realtors 2013 Community Preference Survey indicated that 69 percent of survey respondents said being within an easy walk of other places and things in the community was an important factor in deciding where to live.²



Mixed Use can refer to individual development projects, like the building above, or places like this downtown business district shown below.



A recent Urban Land Institute study titled “America in 2013” also evaluated citizens’ attitudes about community choices. Of those surveyed, 62 percent of those planning to move in the next five years stated that they would prefer to settle in mixed-use communities.³ The Sonoran Institute’s 2013 study, “RESET: Assessing Future Housing Markets in the Rocky Mountain West,” echoed these results regionally. 90 percent of those surveyed in this region said it was important to live in places within an easy walk of other places and things in the community.⁴

What is Mixed-Use Development?

Mixed-use can describe a type of development, such as a building with retail on a ground floor and residential above, as well as types of places, like neighborhoods or downtowns, where different types of land uses, such as residential, retail, office or institutional are in close proximity.

Combining and integrating different land uses—such as residential, office, retail, entertainment and lodging—is not new. People have been building mixed-use places for over a thousand years. Since

most of the world's older cities were built before the advent of the car, walking was the main mode of transport, so it was quite practical to have homes, businesses and other things located in close proximity.

This form of development is innate to the American West as well. Historic downtowns are often found in western mountain communities that were developed with a mix of commercial and residential buildings, which created areas that served as the focal point of those communities.

Development patterns changed dramatically with the invention of the automobile, modern zoning practices, and the suburbanization that followed World War II, as people and businesses moved outside of cities and downtown cores and residential and commercial uses became increasingly isolated from one another. The suburban development pattern that emerged is familiar. It features residential subdivisions and a variety of single-use commercial formats including stripmalls, office parks and big-box centers. The design of these areas increasingly prioritized automobile access because the separation of uses meant people needed to drive between work, home and other daily needs.



While suburban development patterns remain popular in many areas, a growing number of communities are shifting back to a more traditional model of mixed-use development. There are a variety of reasons for this shift, related not only to the benefits of mixed-use places, but also to challenges with single-use development. Those challenges include longer commute times, economic stagnation of outdated malls and commercial strips and the high costs associated with infrastructure maintenance for far-reaching areas of the community. Additionally, in communities where land costs are high or the amount of available land within municipal boundaries is limited, mixed-use development can allow higher densities and achieve more affordable housing stock while also supporting a more compact urban form and creating walkable communities where there is less reliance on the automobile.

From an economic development perspective, having residents and workers in the same area creates activity and a vitality via increased foot traffic, not just during the day, but also in the evenings. Office and retail spaces draw visitors during the day, while residential, restaurant and entertainment spaces create a more lively experience in the evenings.

Mixed-use development offers numerous advantages for the developer as well, including:

- Higher-density developments lower the cost of land per square foot, making more affordable housing units achievable.
- Mixed-use developments cannot be easily replicated and are unique in composition and structure. This allows them to potentially increase in value over time. Such unique qualities may draw residents and commercial tenants who are looking for something out of the ordinary. In the right location, mixed-use developments can be more successful from a leasing perspective than single-use due to the creation of an experience not available elsewhere.
- Having multiple components in the development creates multiple revenue streams that help to diversify the risk of a project. A developer can also swap uses in certain cases, so if office space is proving difficult to lease, it can be quickly changed to retail, or even residential live/work units if zoning allows for it.
- Developers working on mixed-use projects may be allowed to provide fewer parking spaces than would be needed for single-use commercial spaces, depending on the types of uses within the project. For example, an office can share a parking lot with a theater because they typically have opposite operating times. Office employees will use parking during the day, while the theater will primarily use it in the evening. There can be up to a 30 percent reduction in parking space necessity via this method, which lowers the amount of land required as well as development costs.

Commercial Development Types

Mixed-Use

Mixed-use development can take many forms. The following are brief descriptions of those referenced throughout this report.

Vertical Mixed-Use



Combines different uses in the same building structure in a distinct vertical fashion. Parking may be underground and surface parking is often limited. Ground floor uses are typically retail, restaurant and services, with offices and residential above. This is the most expensive type of mixed-use to construct, so population density and land values must play a large part in creating financial success.

Horizontal Mixed-Use



Combines different uses in interconnected building structures in a horizontal fashion, although some vertical mixing may still occur. Parking may include a mixture of surface lots, garages, or underground parking. These developments incorporate a wide variety of uses such as retail, food and beverage, services, office, residential, lodging and entertainment. In general, this is a less complex, and therefore less expensive, model to build than vertical mixed-use, but it is usually spread over a larger footprint and thus requires more land.

Lifestyle Center



An outdoor commercial shopping center that combines retail functions with services and amenities. It is typically oriented toward upscale consumers and therefore is more feasible in communities that are more affluent. Most of these developments have surface parking. Retail is the primary use, but food and beverage and services are also common.

Mixed-Use continued on next page

“...demand will continue to rise for mixed-use developments and walkable neighborhoods, and there will be a movement away from single-use neighborhoods and stand-alone commercial centers...”

Historic Urban Mixed-Use



A mixed-use development created in a historic urban building, typically in a downtown setting. Retail or services are usually at ground floor, with offices or residential above. Since the building is already constructed, the focus is toward conversion and retrofitting. Taking advantage of available tax credits can help make this type of project financially viable.

Main Street Commercial



Revitalization of a downtown main street or district, based on the belief that historic commercial areas are the traditional centers of shopping, business and community. Uses include retail, food and beverage, services, office, residential, lodging and civic. Multiple parcels owned by various land owners can create problems from a logistics standpoint during the revitalization stage if not all stakeholders are on the same page.

Complete Neighborhood



A neighborhood that has developed land compactly, with many daily needs within walking distance of homes. The neighborhood may include single-use or mixed-use buildings and development allows for shopping, employment and recreational uses close to homes. A common development pattern for a complete neighborhood may include commercial uses at the intersection of main roads with residential uses surrounding the intersections.

Live/Work Units



Live/work units combine commercial or manufacturing space within the same structure as a residential living space for the business owner. They have similar benefits to mixed-use development and eliminate the need to commute. In addition, they can provide affordable work and housing space, meet the needs of special groups, such as artists, and serve to incubate new businesses.⁵

Single-Use Commercial

Standard, single-use commercial developments also take a variety of forms, including the following:

Big-box Store



A large retail store that resembles a large square or box when seen from above. A big-box store is characterized by a large amount of floor space (generally more than 50,000 square feet), a wide array of items for sale, and location in suburban areas. They are also called supercenters, superstores, or megacenters.⁶ These sites are generally designed to be accessed via automobile, require large parking lots, and often lack useful pedestrian access.

Power Center



A retail center dominated by several anchors, often big-box stores. Anchors may include discount department stores, off-price stores and warehouse clubs, among others.⁷ Power centers may also provide a few sites for smaller tenants, with all tenants sharing a large, common parking area designed to prioritize vehicles.

Strip/Convenience Center



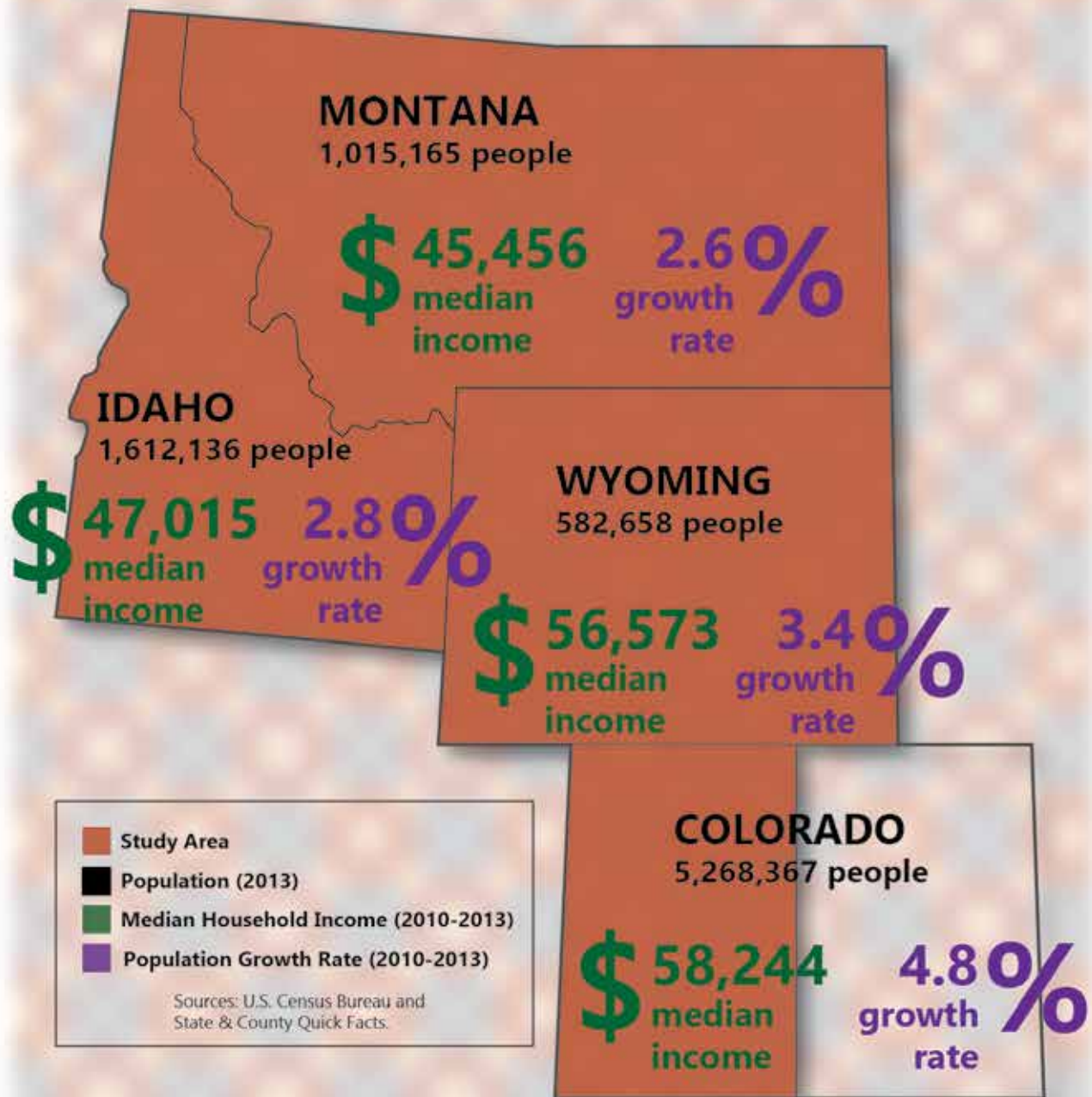
Often an attached row of stores or service outlets managed as a coherent retail entity, with on-site parking usually located in front of the stores. These can also be free-standing structures but are always auto-oriented developments. Tenants provide a narrow mix of goods and personal services.⁸ Uses may include grocery stores, pharmacies, liquor stores, dry cleaners, retail or others.

Since 2006, only one traditional enclosed mall has been built in urban or suburban markets across the U.S.

Study Area

The study area for this report consists of four states: Montana, Idaho, Wyoming and Colorado. The focus in Colorado was on the western portion of the state, not including Denver or other cities on Colorado's Front Range. (Since these cities have a larger population base, opportunities for mixed-use development exist which are not common to the smaller cities and towns in the study.)

Demographics reveal that this region has a small—but growing—population, with median annual incomes ranging from \$45,000-\$58,000 (see map).



Summary

Each of the four states is experiencing relatively strong population growth among all age cohorts. Like many other areas throughout America, this region is seeing an increase in the 65 and older demographic, as the Baby Boomer generation ages. This implies there will be a substantial increase in demand for transitional housing options. This will create a growing need for clusters of services and commercial amenities near residential dwellings, which could present a major opportunity for mixed-use projects.

Overall, the low population density of all of these states, and in particular Wyoming, presents a significant barrier to mixed-use development, since a critical mass of people is a necessary component to all successful mixed-use projects. As always, it is important for a developer to choose location carefully and to tailor the project to the demographics of that location. We will discuss this point in greater depth later in the report.

While density throughout these states may be quite low, there are still significant population concentrations in each of them. In Idaho, for example, population growth has long been focused on cities rather than rural areas. This continuing trend points to opportunities for mixed-use development in those population centers.



NORTH AMERICAN COMMERCIAL TRENDS

The Impact of Demographic Shifts

The Sonoran Institute's RESET report described major demographic shifts occurring in the U.S. that are affecting the housing market and driving an increasing demand for mixed-use neighborhoods.⁹ The two major cohorts, Generation Y (those born 1982-2004, approximately) and Baby Boomers (born 1946-1964) are currently forming households and transitioning either to starter homes or retiring to smaller units, respectively. Young people are entering the workforce and gaining buying power, while many older adults are seeking alternative housing as they become empty-nesters and become less physically mobile. The lifestyle preferences and needs of these two dominant cohorts have a major impact on many aspects of our society, including the future of housing, retail, and entertainment industries.

Estimated Generation Y and Baby Boomer Households

| | United States | Colorado | Idaho | Montana | Rocky Mountain West |
|--|------------------|---------------|--------------|--------------|---------------------|
| Gen. Y | | | | | |
| Ages 10 to 29 (Approx. Generation Y) | 85,405,385 | 1,393,203 | 447,257 | 259,109 | 2,099,569 |
| Estimated Population per Individual Age Cohort | 4,744,744 | 77,400 | 24,848 | 14,395 | 116,643 |
| <u>Total Population per Households [1]</u> | <u>2.65</u> | <u>2.65</u> | <u>2.65</u> | <u>2.65</u> | <u>2.65</u> |
| Estimated Households per Year | 1,793,674 | 29,260 | 9,393 | 5,442 | 44,095 |
| Baby Boomers | | | | | |
| Ages 45 to 64 (Approx. Baby Boomers) | 81,489,445 | 1,340,342 | 388,850 | 288,690 | 2,017,882 |
| Estimated Population per Individual Age Cohort | 4,527,191 | 74,463 | 21,603 | 16,038 | 112,105 |
| <u>Total Population per Households [1]</u> | <u>2.65</u> | <u>2.65</u> | <u>2.65</u> | <u>2.65</u> | <u>2.65</u> |
| Estimated Households per Year | 1,711,432 | 28,150 | 8,167 | 6,063 | 42,379 |

[Note 1]: Actual average household size is 2.59; using this ratio holds all other assumptions on institutionalized population, for example, constant.

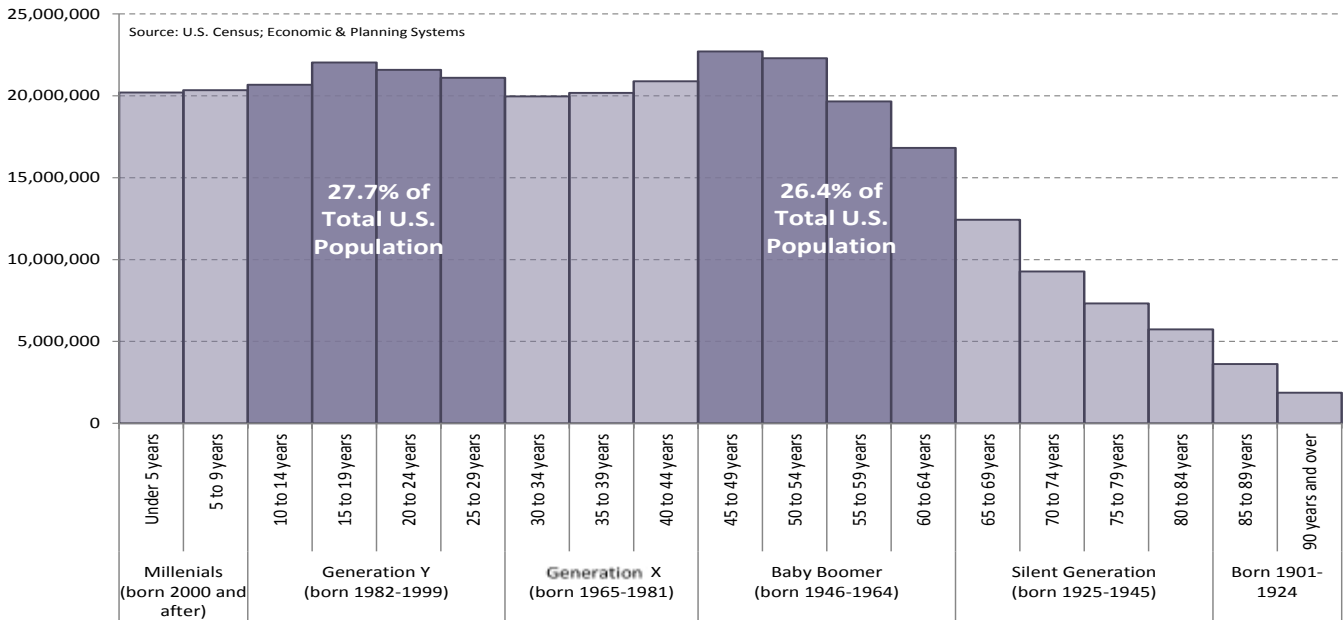
Source: U.S. Census; Economic & Planning Systems

Baby Boomers

Comprising 20 percent of the U.S. population, Baby Boomers are the largest demographic cohort in the country, as well as the wealthiest and most educated among all cohorts. By 2030, nearly one in five Americans, or 71.5 million people, will be over the age of 65,¹⁰ and their needs are changing. A large number of Boomers will consider downsizing from large single-family homes to smaller housing units such as condos, row houses, townhouses and duplexes. This type of accommodation is typically constructed in denser urban areas that provide plentiful amenities, rather than in suburban settings.

Baby Boomers' shopping habits are expected to change as well. While they prefer shopping experiences that are familiar and comfortable, their limited mobility will result in an increased demand for convenience-based retail, leisure and entertainment. Rather than driving longer distances to commercial plazas, big box centers, and typical suburban-style retail, they will likely opt to walk, use public transit or take a quick drive within their neighborhood to make purchases.

U.S. Age Distribution, 2000-2010



Generation Y

Due to the number of Baby Boomers, retailers will continue to pay close attention to their needs and desires. In terms of shaping commercial trends, however, retailers' attention is decidedly shifting toward the growing influence and spending power of Generation Y.

In 2013, Generation Y accounted for 15 percent of the U.S. population. This group is projected to account for nearly one-third of total spending in the country by 2020.¹¹ Generation Y prefers to live, shop and play in more urban settings such as downtowns or other mixed-use environments, where they are able to walk to many amenities. Some of this preference may be attributed to a movement toward social responsibility and sustainable living. Messages about the importance of sustainability are being engrained into younger generations and future consumers through mass media, the Internet and educational media.

Table: Spending Power of Generation Y and Baby Boomer Age Cohorts

| | GENERATION Y | BABY BOOMERS |
|----------------------------|---------------|----------------|
| Population | 84 million | 81 million |
| Spending Power/year | \$170 billion | \$2.9 trillion |

Source (spending power): <http://www.irdconline.com/files/presentations/ages-stages-marian-salzman-handout.pdf>

Generally, members of Gen Y are fond of shopping and dining out, and they also expect convenience, with high-quality products and a continually refreshed variety of choices. The result is that Gen-Y tends to hop from one hot spot to the next, which is a concern for developers looking to create a retail project that can rely on returning customers. Capturing their attention requires constantly updating goods and redesigning store layouts. Part of the

move to attract this demographic includes shifting the standard large retail center format toward smaller units, with retailers downsizing their typical store size.¹²

Younger people are also eschewing previously popular mainstream brands for unique items which are typically found in smaller, locally-owned boutique shops. In a recent survey, 37 percent of Gen Y consumers stated they distrusted big business,¹³ favoring niche retailers that are able to create unique shopping experiences.¹⁴ Furthermore, 40 percent preferred to purchase goods that are local, even if the items are more expensive than mass-market goods.¹⁵ Niche retailers and local goods do not characteristically fit the mold for big-box store developments, enclosed shopping centers and strip malls. Instead, they are more typically located in an urban setting such as downtown or along trendy commercial corridors.

The implications of Gen Y and Baby Boomer preferences are that demand will continue to rise for mixed-use developments and walkable neighborhoods, and there will be a movement away from single-use neighborhoods and stand-alone commercial centers that were once the favored development standard.

Online Retail is Changing, But Not Eliminating, Brick and Mortar Retail

The retail industry in North America has been affected by rapid changes in technology and tough economic times. One of the major developments, online retailing, has become an important part of the global retail industry for several reasons:

- **The main consumer cohort, Generation Y, is technologically savvy and has a preference to use technology to make shopping more convenient and efficient.**
- **Society spends more and more time on the Internet, through use of phones, tablets and computers, which provides consumers with 24-hour access to retailers**
- **Social media plays a large role in promoting brands and offering exclusive deals to followers**

Online retail has been an integral part of American commerce since the 1990s. In 2000, 46 percent of internet users claimed to have made an online purchase. By 2007, that number rose to 66 percent, and as many as 93 percent of internet users did online research for shopping.¹⁶

These numbers reflect the behavior of internet users, however the percentages in terms of the total population are lower. Only 26 percent of all Americans shop online weekly, and 22 percent made their first online purchase less than four years ago. Less than one-third of Americans buy products on social media, or shop on mobile phones or tablets.¹⁷

Taken together, these figures support the idea that online shopping is a growing trend that is having a strong effect on brick-and-mortar retail, yet it is far from replacing the in-person shopping experience.

Part of this may be because people enjoy shopping. According to reports by the Urban Land Institute (ULI), retailers have feared that the growing consumer power and preferences of Generation Y would lead to a significant decrease in-store shopping. It is true that the need for physical stores is becoming less vital for retailers and consumers, since shoppers can view new products without having to visit stores but brick and mortar shopping is still favored for several reasons. For example, the majority of 18-35 year olds surveyed by ULI stated they still enjoyed the shopping experience, viewing it as a form of entertainment and as an opportunity to socialize with friends and family.¹⁸ This indicates that while online retailing and sales are growing, it is unlikely to ever completely replace the role of physical commercial developments. Instead, the trend is for the brick and mortar storefront to act as a marketing gateway to the retailer's multi-channelled brand that also includes websites and social media efforts.

Right-Sizing Commercial Real Estate

Retail stores and shopping centers are here to stay, but retailers have made significant changes in response to the growth of online retailing and the need to continually redefine their stores' identities to stay up-to-date with emerging trends. One of the largest adjustments has been a general downsizing in store size, as the requirements for storage space, and even floor space overall has reduced.¹⁹ Across North America, retailers are changing from "super-sized" to "right-sized" stores. Larger retailers no longer are required to keep vast amounts of stock available on-site for potential shoppers. This has led not only to smaller stores with lower inventory, but also to fewer stores in general.

Retailers such as Target and Wal-Mart have responded to this trend recently by opening smaller urban format stores that cater toward city life. These stores are located in denser locations, are typically multi-level, and

sometimes act as the base of a mixed-use project. In Seattle, a CityTarget opened in 2012 at the base of a residential tower in the downtown core. The store covers three floors with parking underneath and is aimed at the growing number of apartment and condo dwellers in the area.²⁰ Other retailers such as The Home Depot, Best Buy, Kohl's, Dick's Sporting Goods, and Petco among others, have all opened urban form stores over the last several years in cities such as Miami, Baltimore, Washington D.C., Chicago and Minneapolis.

Right-sizing is also a response by commercial developers to the over-development of retail centers that struggled to fully lease their spaces. Developers have realized that bigger was not always better, and having a commercial development that was smaller in scale but fully leased over the long term was more profitable. Also, the economic downturn provided some positive effects, as many retail real estate companies have refocused on higher-density

infill projects rather than greenfield development, whether the deals involve rehabbing an older building in a good location or demolishing the structure and building a new one.²¹

Office space has experienced a "right-sizing" effect as well, with office tenants, especially larger firms, downsizing their spaces. The days when every employee had his or her own office or designated space are disappearing.²² Shared work spaces and the ability to work from anywhere has allowed office tenants to decrease the amount of leasable office space they require and has been a way to cut rental costs. Ten years ago, the standard for office space required per employee was 250 square feet. Today, that number has shrunk to 185 square feet per worker, a clear shift toward higher efficiencies of space.²³

Many mixed-use and urban format commercial developers have recognized these trends and have adjusted their building practices in recent years to meet the demands of their clients. Retail and office spaces are smaller in nature, but are also designed to be modular, so that they can be easily split or combined depending on the needs of the tenant.

Ten years ago, the standard for office space required per employee was 250 square feet. Today, that number has shrunk to 185 square feet per worker, a clear shift toward higher efficiencies of space

Commercial Development Sectors

Strip/Convenience Centers are Developers' Format of Choice Today

With more equity required for projects following the economic downturn, developers are staying conservative and fairly risk-averse, focusing on smaller development formats.²⁴ Since 2006, only one traditional enclosed mall has been built in urban or suburban markets across the U.S.²⁵ Power centers and lifestyle developments have also been limited in recent years, as retail developers have focused on building strip/convenience or open-air grocery-anchored centers. Between January and June 2012, 83 retail centers opened in the United States, and about two-thirds (66 percent) were un-anchored strip/convenience centers.²⁶

In much larger cities throughout North America, however, there is growing interest for mixed-use developments, and the variety of tenant types is also changing to include green grocers, specialty food and wine stores, as well as health and wellness components such as yoga studios. Mixed-use developments and lifestyle centers have become more and more popular since the turn of the millennium in denser urban settings, especially in areas that have higher spending potential, like Denver, the San Francisco-Bay Area, Salt Lake City, Seattle and the Miami-Palm Beach corridor.

Artisan Restaurants and Bars

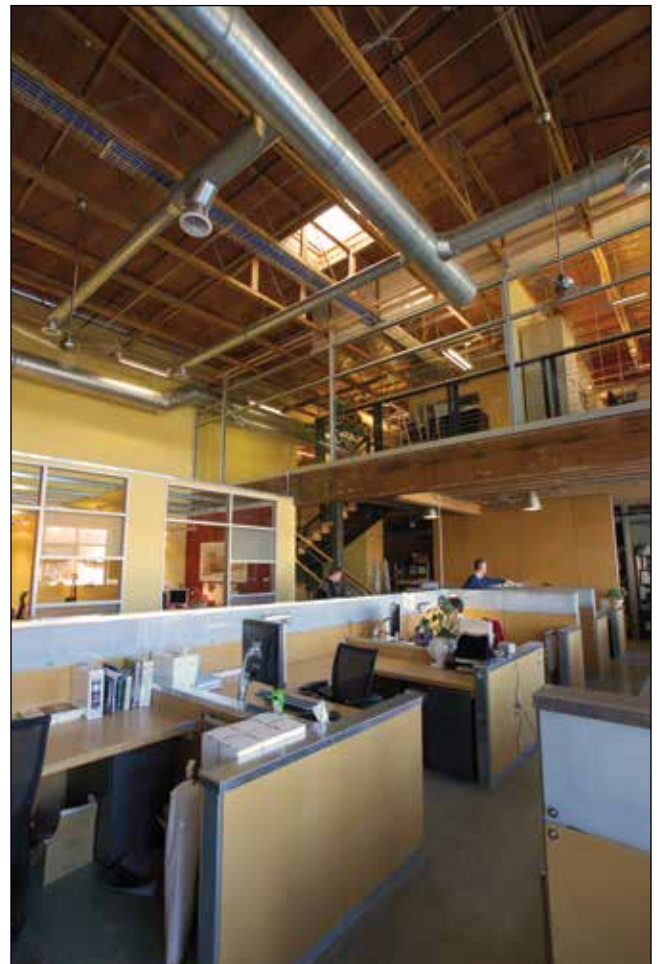
Restaurants are currently the most dynamic retail category, and over half of all leasing transactions are with food and beverage tenants. The public is seeking new dining concepts and shifting away from chain restaurants toward artisan restaurants and bars.²⁷ Restaurateurs are working to meet emerging demands for healthier, locally-sourced and organic foods. Diet-sensitive dining establishments also have a growing market, as awareness and focus on health and chemical-free diets continues to grow. Capitalizing on these emerging trends that encourage and accommodate "foodie" behavior and experimentation can help a restaurant become a desirable destination.

Hybrid Concepts

The same factors impacting retail and dining apply to the entertainment sector as well. Consumers are looking beyond the status quo and are attracted to unique interactive experiences like board game cafes, ping pong nightclubs and bowling alley restaurants and bars. When a business that typically shuts down early in the evening is combined with one that stays open late (e.g., an art gallery/wine bar), hybridization allows longer hours and potential for more revenue. It also provides a sense of community to the area as a meeting place, and enlivens the neighborhood streetscape with pedestrians in the evenings.

Summary

Overall, commercial real estate continues to shift to meet the rapidly changing tastes and needs of target markets. Consumers now value uniqueness, and they are quick to switch their brand allegiance. These emerging trends require new developments that are adaptable and flexible, which can stay relevant and retain their consumer base.



REGIONAL COMMERCIAL TRENDS

MXD's analysis of the commercial landscape in the Rocky Mountain West included a demographic study of several communities in the region, interviews with professional developers, real estate brokers, city planners and invested stakeholders in those communities, and case studies of several mixed-use projects. These local sources helped identify trends and opportunities related to mixed-use development, as well as the barriers that need to be addressed for communities in the Rocky Mountain West region to develop successful mixed-use projects.

Suburban-style Commercial Formats Still Prevalent

In the Rocky Mountain West, mixed-use developments make up a small percentage of commercial space compared to single-use enclosed malls, power centers and strip/convenience centers.

These auto-oriented formats of commercial space have been popular with shoppers in many cities and towns throughout the region where density is low and public transit is limited. They have also been popular formats among developers, especially strip/convenience centers due to low vacancies and strong tenant demand. Traditional enclosed malls, which flourished in the latter part of the 20th century, have seen a decline over the past several years.

These single-use commercial centers continue to report solid progress in leasing according to the International Council of Shopping Centers (ICSC), especially in neighborhood and community retail centers. More and more businesses are turning to small shop spaces (10,000 square feet or less) in these developments, and a great majority of the leases are national chains such as Dollar General, Chipotle and Subway, which have strong credit, deep pockets and recognizable brands.²⁸ While many consumers, especially members of Gen Y, may want to see more independent retailers, the reality is that in a post-recession economy marked by an uneven recovery, entrepreneurs are cautious about opening independent stores. Additionally, investors are turning to what they see as the "safer bet", which is franchising.²⁹

Under-represented Commercial Formats

MXD's examination of the Rocky Mountain West region showed that there are several under-represented commercial formats. Among cities in the study, the less populated towns are devoid of major shopping centers such as regional malls, lifestyle centers and big box centers. These retail centers and formats exist in larger cities, acting as retail destinations for those living in smaller towns. An example of this would be Mesa Mall in Grand Junction, Colorado, which acts as a retail hub for surrounding communities.

Mixed-use developments are also under-represented, especially in terms of vertical mixed-use projects, which tend to be limited to downtowns or city centers. Live/work dwellings, which provide both office and living space, are highly sought after in certain areas, but are also very limited in terms of constructed properties.

As stated earlier, downtown cores have seen a decrease in retail and commercial activity. With the suburban and neighborhood retail center being a more popular development model over the past few decades, there has been a declining commercial presence in downtowns. This trend has started to shift in larger communities, as changing tastes and demographics are drawing people who are seeking density, urban vibrancy and a cluster of amenities and attractions back to downtown areas. A result of this shift has been a resurgence of downtowns in some communities, which could represent an opportunity for increased mixed-use development within the region.

National Retailers Prefer Tried-and-True Commercial Locations

It can be difficult for new or less-established developments to attract national retailers as tenants. National retailers determine where they locate based on a series of indicators that include community spending power,



population density, trade area demographics, competitive supply and traffic counts. Newer developments without performance indicators matching the requirements of their formatting formulas are unlikely to draw their attention.

Big box stores such as Wal-Mart and Target are exploring the possibility of urban format stores, but only in large cities like Boise. At this point, these retailers do not see the financial advantages to moving into a more urban format in smaller cities. Land is still plentiful in most municipalities, and it is comparatively inexpensive to construct suburban-style commercial projects with big parking lots.

While national retailers are more selective in choosing locations, mixed-use developments can attract local retailers, who can be more flexible with location decisions and who are also more likely to draw the Generation Y clientele who prefer the local, independent establishments.

ANALYSIS OF COMMUNITIES IN THE ROCKY MOUNTAIN WEST

The study focuses on a sampling of communities in the Rocky Mountain region—representing a broad range of size, location and socio-economic status—to better understand the market potential for mixed-use commercial development throughout the Rocky Mountain West.

Using census data to analyze the strongest indicators for determining the type of development that can occur in certain municipalities - population size, population growth, education, income, and age of residents of each of the selected communities - MXD performed a “cluster analysis,” sorting the communities into three groups based on demographic attributes. Each community was ranked on a scale from one to three for each indicator based on how they compared to the median. These indicators were weighted according to their importance for development feasibility to assign a final ranking which placed them in their respective “tier.”

The three rankings, described as Tiers A, B and C, represent distinct community typologies. See Appendix for further explanation of the cluster analysis methodology.

TIER A

Table 1: Tier A Communities

| CITY | STATE | POPULATION 2012 | POPULATION CHANGE 2010 TO 2012 | MEDIAN HOUSEHOLD INCOME | PER CAPITA INCOME | MEDIAN AGE | BACHELOR'S DEGREE OR HIGHER (AGE 25+) |
|----------------|-------|-----------------|--------------------------------|-------------------------|-------------------|------------|---------------------------------------|
| Durango | CO | 17,216 | 2.00% | \$53,674 | \$29,503 | 30.10 | 50.70% |
| Fort Collins | CO | 148,612 | 3.20% | \$51,446 | \$28,081 | 29.10 | 51.50% |
| Grand Junction | CO | 59,899 | 1.40% | \$48,257 | \$27,654 | 37.20 | 30.60% |
| Loveland | CO | 70,223 | 5.00% | \$54,763 | \$28,258 | 37.10 | 33.10% |
| Parker | CO | 47,169 | 4.10% | \$92,917 | \$35,270 | 32.40 | 48.00% |
| Telluride | CO | 2,368 | 3.00% | \$66,789 | \$44,490 | 38.60 | 50.40% |
| Boise | ID | 212,303 | 3.00% | \$49,516 | \$28,804 | 35.30 | 36.90% |
| Meridian | ID | 80,386 | 7.00% | \$63,388 | \$26,662 | 32.90 | 33.40% |
| Billings | MT | 106,954 | 2.70% | \$47,869 | \$27,582 | 37.70 | 31.10% |
| Bozeman | MT | 38,695 | 3.80% | \$44,412 | \$25,699 | 27.00 | 52.30% |
| Casper | WY | 57,813 | 4.50% | \$53,064 | \$30,603 | 36.30 | 24.10% |
| Cheyenne | WY | 61,537 | 3.40% | \$51,912 | \$28,739 | 35.70 | 25.00% |
| Max | | 212,303 | 7.00% | \$92,917 | \$44,490 | 38.60 | 52.30% |
| Min | | 2,368 | 1.40% | \$44,412 | \$25,699 | 27.00 | 24.10% |
| Average | | 75,265 | 3.59% | \$56,501 | \$30,112 | 34.12 | 38.82% |

Tier A communities share some combination of the following characteristics:

- A sizable population
- Significant growth over the past several years
- Relatively high median and per capita incomes
- A youthful population base
- A well-educated population

TIER B

Table 2: Tier B Communities

| CITY | STATE | POPULATION 2012 | POPULATION CHANGE 2010 TO 2012 | MEDIAN HOUSEHOLD INCOME | PER CAPITA INCOME | MEDIAN AGE | BACHELOR'S DEGREE OR HIGHER (AGE 25+) |
|------------------|-------|-----------------|--------------------------------|-------------------------|-------------------|------------|---------------------------------------|
| Basalt | CO | 3,857 | -0.60% | \$70,914 | \$38,174 | 33.60 | 46.90% |
| Carbondale | CO | 6,489 | 1.00% | \$62,162 | \$28,113 | 35.30 | 37.30% |
| Eagle | CO | 6,474 | 0.50% | \$75,050 | \$30,679 | 34.70 | 46.90% |
| Glenwood Springs | CO | 9,677 | 0.70% | \$53,909 | \$31,308 | 35.50 | 31.80% |
| Rifle | CO | 9,267 | 0.80% | \$61,268 | \$23,352 | 30.60 | 11.40% |
| Coeur d'Alene | ID | 45,579 | 3.30% | \$40,132 | \$22,393 | 35.10 | 23.20% |
| Idaho Falls | ID | 57,899 | 1.80% | \$45,990 | \$24,020 | 32.40 | 27.50% |
| Nampa | ID | 83,930 | 2.70% | \$42,111 | \$17,131 | 29.30 | 16.80% |
| Helena | MT | 29,134 | 3.30% | \$47,749 | \$28,856 | 41.00 | 46.20% |
| Kalispell | MT | 20,487 | 2.80% | \$39,205 | \$22,301 | 32.40 | 26.40% |
| Missoula | MT | 68,394 | 2.30% | \$37,316 | \$23,847 | 31.00 | 41.40% |
| Jackson | WY | 9,838 | 2.40% | \$54,234 | \$29,233 | 32.90 | 47.50% |
| Laramie | WY | 31,681 | 2.80% | \$41,304 | \$23,104 | 25.10 | 50.00% |
| Sheridan | WY | 17,698 | 1.40% | \$48,063 | \$25,068 | 38.50 | 22.30% |
| Max | | 83,930 | 3.30% | \$75,050 | \$38,174 | 41.00 | 50.00% |
| Min | | 3,857 | -0.60% | \$37,316 | \$17,131 | 25.10 | 11.40% |
| Average | | 28,600 | 1.80% | \$51,386 | \$26,256 | 33.39 | 33.97% |

Tier B communities in general have:

- A smaller population than Tier A communities
- Slower growing or slightly shrinking populations
- Mid-range median and per capita incomes
- Youthful residents, although they can have a growing aging population
- A strong base of residents that have post-secondary educations



TIER C

Table 3: Tier C Communities

| CITY | STATE | POPULATION 2012 | POPULATION CHANGE 2010 TO 2012 | MEDIAN HOUSEHOLD INCOME | PER CAPITA INCOME | MEDIAN AGE | BACHELOR'S DEGREE OR HIGHER (AGE 25+) |
|--------------|----------------|-----------------|--------------------------------|-------------------------|-------------------|------------|---------------------------------------|
| Buena Vista | CO | 2,195 | 1.90% | \$43,684 | \$26,795 | 46.80 | 32.20% |
| McCall | ID | 2,924 | -3.20% | \$52,675 | \$27,678 | 45.70 | 36.80% |
| Salmon | ID | 3,124 | -2.20% | \$40,270 | \$24,019 | 49.20 | 21.20% |
| Sandpoint | ID | 7,403 | 0.50% | \$41,851 | \$22,429 | 35.50 | 23.30% |
| Teton County | ID | 10,052 | -1.02% | \$52,444 | \$23,576 | 33.70 | 33.20% |
| Red Lodge | MT | 2,215 | 0.50% | \$46,194 | \$25,943 | 47.50 | 28.60% |
| | Max | 10,052 | 1.90% | \$52,675 | \$27,678 | 49.20 | 36.80% |
| | Min | 2,195 | -3.20% | \$40,270 | \$22,429 | 33.70 | 21.20% |
| | Average | 4,652 | -0.59% | \$46,186 | \$25,073 | 43.07 | 29.22% |

Tier C communities commonly share:

- The smallest population base
- Low growth rates or shrinking populations
- Relatively low median and per-capita incomes
- Aging populations
- A lower number of residents with post-secondary education

Identifying Locations for Mixed-use Development

The Rocky Mountain West has great potential for successful commercial projects. However, finding the best locations for the development and matching the appropriate type and size of development for the location are critical considerations.

Based on our community cluster analysis and the case studies above, we can make some recommendations about the types of mixed-use development appropriate in each of the three community tiers. The table below matches the mixed-use development types to the community where they have the best opportunity to succeed. These allocations are intended as a guideline only and it would be essential to conduct a thorough market, site and financial analysis to ensure that the recommended development would actually be feasible. Also, as communities change over time, they may switch tiers, altering the feasibility of certain development.



TIER A

As shown, all types of mixed-use development are feasible in Tier A communities. Vertical mixed-use will be more challenging than the others to construct and should be located in areas that already have high density in place, or are planned for increased density. This is usually within the heart or on the edges of the city/town center. Because of lower land costs, horizontal mixed-use becomes more feasible outside of higher density city centers in Tier A communities. Lifestyle centers would be best fit for only the largest cities in the study area. This is primarily due to the fact that lifestyle centers rely on large local consumer bases with above-average income profiles.

TIER B

Tier B excludes vertical mixed-use and lifestyle centers due to population size, growth rates, and densities. In these communities, we recommend horizontal mixed use, historic urban mixed-use, main street commercial and complete neighborhoods. Complete neighborhoods are becoming increasingly popular from a consumer and development standpoint. They work well from a feasibility perspective, since they can be phased in over a period of years as demand is warranted. This means that as communities grow in population and more rooftops are constructed, the commercial aspect of a complete neighborhood can be expanded to meet consumer demand. Much like Tier A, Tier B communities are also appropriate for horizontal and multi-use commercial developments outside of the city/town center.

TIER C

Tier C has two appropriate development types: historic urban mixed-use and Main Street commercial. Since many small towns in the Rocky Mountain West region have historic town centers, the ability to retrofit an older building into a mixed-use development with small-scale commercial at ground floor and residential or office space above is much more financially feasible than constructing a new project on a greenfield or brownfield site. Main street commercial revitalization continues to become more popular, and rather than developing new commercial projects on the outskirts of town that drive consumers away from the center, investment by public and private entities in retaining the original commercial fabric of the town can create a vibrant hub of activity without the need to develop from scratch. Main street revitalization and historic urban mixed-use work well from a financial perspective for Tier C towns, as there are many programs and grants available at the state and national levels to fund these projects. Funding through mechanisms such as federal historic preservation tax incentives, discussed

Development Type Allocation

Table 5: Development Type Allocations

| Development Type Allocation | | |
|--|----------|---|
| City | Tier | Potential Feasible Developments |
| Fort Collins Parker Meridian Casper Cheyenne Boise Loveland Durango Bozeman Billings Grand Junction Telluride | A | Vertical Mixed-Use Horizontal Mixed-Use Lifestyle Center Historic Urban Mixed-Use Main Street Commercial Complete Neighborhood |
| Helena Idaho Falls Eagle Basalt Laramie Nampa Missoula Jackson Rifle Carbondale Glenwood Springs Kalispell Twin Falls Sheridan Coeur d'Alene | B | Horizontal Mixed-Use Historic Urban Mixed-Use Main Street Commercial Complete Neighborhood |
| Red Lodge McCall Buena Vista Teton County Sandpoint Salmon | C | Historic Urban Mixed-Use Main Street Commercial |

further in the implementation section, reduce a project's reliance solely on private sector investment or on a town's small tax base. These two development types are appropriate to all tiers, and they are the best first step for Tier C communities.

Keeping these tiers and development types in mind, we took a closer look at the selected communities, investigating lease rates for various types of commercial real estate, population requirements for various retail categories, and then developed a few case studies of successful mixed-use projects. All of the following information helped inform recommendations about what types of mixed-use development are most appropriate for the various community typologies and make recommendations for location selection for mixed-use projects.

Lease Rate Performance of Various Commercial Formats

To better understand the performance of mixed-use developments in the Rocky Mountain West, we compared lease rates for available properties in mixed-use developments in the region with those of available traditional commercial developments. Our findings were that lease rates, like any property rates, vary by location; however, the typical lease rates of mixed-use commercial are comparable to those of other types of commercial developments. We found no evidence that mixed-use developments are generally garnering either higher or lower lease rates when compared to traditional commercial formats.

See Appendix for the complete listing of properties included in the analysis and their lease rates per square foot.

Population Support for Retail

MXD Development Strategists utilized International Council of Shopping Centers and U.S. Census data to determine population guidelines necessary for the success of various retail categories. The table below provides recommendations about what types of retail categories are feasible by population size and households required. It is important to note that on a more local level, the number of people and households needed to support various commercial endeavors can be more varied, depending on the affluence of the given community and local interests (for example, a mountain biking store in a mountain biking community).

Calculations took into consideration U.S. average annual spending per capita for various commercial/retail categories, average sales productivity and typical store size.³⁰ They did not take into account variables that could affect the overall outputs, such as competing projects that are already established in the community, smaller or larger store sizes or localized sales productivity. Household requirements were calculated using 2010 U.S. Census data of 2.58 residents per household.³¹

We found no evidence that mixed-use developments are generally garnering either higher or lower lease rates when compared to traditional commercial formats.

Table 6: Quantitative Commercial Requirements

| Retail Category | Supportable SF of Retail Per Person | Typical Store Size (SF) | Population Required | Households Required |
|---|-------------------------------------|-------------------------|---------------------|---------------------|
| Grocery & Specialty Foods | 5.4 | 50,000 | 9,291 | 3,601 |
| Pharmacy | 1.9 | 15,000 | 8,108 | 3,142 |
| Alcohol & Tobacco | 1.2 | 1,500 | 1,209 | 469 |
| Personal Services | 2.4 | 1,000 | 412 | 160 |
| Clothing Stores | 6.7 | 2,500 | 373 | 145 |
| Shoe Stores | 0.5 | 1,500 | 2,813 | 1,090 |
| Jewelry Stores | 0.4 | 1,500 | 3,640 | 1,411 |
| Health & Beauty | 2.1 | 2,500 | 1,209 | 469 |
| Home Furnishings & Accessories | 2.1 | 10,000 | 4,732 | 1,834 |
| Home Electronics & Appliances | 1.2 | 15,000 | 12,405 | 4,808 |
| Home Improvement & Gardening | 0.5 | 5,000 | 9,605 | 3,723 |
| Books & Multimedia | 0.7 | 1,500 | 2,234 | 866 |
| Sporting Goods & Outdoor Recreation | 0.5 | 1,500 | 3,159 | 1,224 |
| Toys & Hobbies | 0.6 | 1,500 | 2,451 | 950 |
| Miscellaneous Specialty | 0.4 | 1,500 | 3,816 | 1,479 |
| General Merchandisers & Warehouse Clubs | 6.6 | 1,500 | 228 | 88 |
| Full Service Restaurants | 3.1 | 4,500 | 1,441 | 558 |
| Limited Service Restaurants | 1.9 | 2,500 | 1,347 | 522 |
| Family Entertainment & Concessions | 0.4 | 10,000 | 27,960 | 10,837 |
| Pubs, Bars & Nightclubs | 0.4 | 3,000 | 7,874 | 3,052 |

Mixed-Use Development Location Checklist

The following is a checklist that both public and private entities can use to select sites for mixed-use development implementation:

- Look for areas where the project will contribute to the overall environment and provide a missing link or land use component.
- Create the project in an area that will provide an element of convenience from a consumer perspective, such as access to amenities and services.
- Locate the project in a prominent location that has the appropriate density. Do not place a higher-density development in an area that has low-density residential homes.
- Ensure that the project is compatible with surrounding uses. Do not place walkable mixed-use developments next to highways on the edges of town or beside industrial parks.
- Look at areas that are readily serviced and will be easier to develop in terms of infrastructure.
- Depending on the nature of the mixed- or multi-use project, make sure that there are no competing projects that would affect potential tenants.
- View the location from a policy perspective. Is the site zoned correctly and, if not, how difficult would it be to re-zone? Is the site in a district that has been allocated for mixed- or multi-use within the community's official plan?
- Look for parcels that have the appropriate size, including room for parking, and will offer phasing flexibility. Also understand the surrounding property ownership and whether land assembly is required.

Mixed-Use Case Study Profiles

In the next section, we look at examples of several mixed-use developments in the study region to see what has worked, and what we can learn from past experience.

Table 4: Overview of Case Study Projects

| TIER A | LOCATION | TIER B | LOCATION | TIER C | LOCATION |
|---------------------|--------------|----------------------------|------------------|-----------------|---------------|
| Lofts At 1201 | Durango, CO | Eagle Ranch Village | Eagle County, CO | Hotel McCall | McCall, ID |
| Bown Crossing | Boise, ID | Great Northern Town Center | Helena, MT | Waters Building | Red Lodge, MT |
| West Park Promenade | Billings, MT | Solstice | Missoula, MT | | |
| Josephine Crossing | Billings, MT | Willits Town Center | Basalt, CO | | |
| | | Historic Sears Building | Butte, MT | | |

TIER A CASE STUDY PROFILES

Lofts at 1201 Durango, Colorado

Quick Facts: DEVELOPER: **Caver and Associates**
 TOTAL SQUARE FEET: **57,500**
 USES: **Retail, Office, Residential**
 TYPE: **Live/Work**



PROJECT OVERVIEW: The Lofts at 1201 in downtown Durango is home to 22 lofts and five commercial/office units. Although the property is popular among many different age groups, empty nesters are driving the success of the development. The units are unique in Durango, and due to minimal competition, the project had considerable demand and immediate success. Every unit in this development has been sold and captured premium pricing, even during the economic recession.

LESSONS AND IMPLICATIONS: The Lofts at 1201 was perfectly positioned to succeed. The project was able to secure financing for the construction of the building before the economic downturn and the developer sold all but two of the 22 total units before 2008. The last two residential units sold in 2012. With virtually no live/work buildings in Durango, the Lofts at 1201 were highly sought after by professionals who were looking for this type of space in the growing downtown core. Today, the average price per square foot for residential property in Durango is \$204, but listings at the Lofts at 1201 have recently sold for at a range of \$276 - \$539 per square foot, demonstrating the strong desirability of the housing in this location.

Even so, financing the project was not without its challenges. The project's architect, Rick Feeney of Feeney Architects, explained that a major hindrance in the original design was having more than 20 percent of the project commercial space. Freddie Mac and Fannie Mae would not guarantee financing for a mixed-use project with such a large commercial component. The developers responded by converting two of the office spaces from commercial to residential, making the development just 16 percent commercial and thereby eliminating the perceived risk.

Bown Crossing Boise, Idaho

Quick Facts: DEVELOPER: **Bown Crossing**
TOTAL SQUARE FEET: **59,000**
USES: **Retail, Office, Residential, Entertainment**
TYPE: **Vertical and Horizontal Mixed-use**



PROJECT OVERVIEW: Bown Crossing is an infill mixed-use project outside of downtown Boise featuring a mix of residential units, retail and office space, as well as cultural amenities and various restaurants. The project is anchored by a brew house and has a mix of professional services and shopping retailers. The development also hosts the East End Market, a farmers' market which features local and regional products and goods. Key features of Bown Crossing are its walkability, density and vibrancy created through design elements.

The development has been performing very well, with only 2,400 square feet of space currently vacant—just 4 percent of the total development. The lease rate for the retail and office space is \$17 per square foot, which is on par with similar available properties in the Boise area.

LESSONS AND IMPLICATIONS: This project's success is due in large part to its proximity to downtown Boise and the ability to secure an anchor and host a cultural feature like the farmers' market. These amenities, combined with the large surrounding population, have allowed Bown Crossing to experience the foot traffic required for a vibrant development. This project highlights the importance of having a strong commercial anchor, various amenities and a large surrounding population base for providing the critical mass of people needed for a mixed-use development of this size.

West Park Promenade Billings, Montana

Quick Facts: DEVELOPER: **West Park Shopping Center, LLC & Brookwater Advisors**
TOTAL SQUARE FEET: **800,000**
USES: **Retail, Residential**
TYPE: **Mall Redevelopment/Lifestyle Center**

PROJECT OVERVIEW: An enclosed mall constructed in 1962 that suffered high vacancies is currently being redeveloped into a mixed-use development consisting of an outdoor lifestyle center and multi-family residential units. The developer split the existing mall structure down the middle and built a retail promenade to create an attractive outdoor shopping experience.

LESSONS AND IMPLICATIONS: This project demonstrates how older enclosed malls with large vacancies can be redeveloped to create a mixed-use project that creates an activity hub for the community. The keys to the success of this project, which is now more than 95 percent occupied, have been identifying the opportunity and being able to weather the recession through smart project phasing.



Though the original plans for this project were put on hold during the recent economic recession, the retail portion of the redevelopment is now nearly complete. Despite lean times at the outset, a few tenants signed on early since they were granted their first choice of location within the development. In 2013, the developer was able to secure a boutique-style grocer (Lucky's Farmers Market out of Boulder, Colorado) as an anchor as well as more services, including an exercise studio.³² Today, lease rates are \$10-\$15 per square foot per year, which is typical for the region. The residential component of the development is currently being constructed in phases, rather than all at once, to meet market demand as it grows.

Josephine Crossing Billings, Montana

Quick Facts: DEVELOPER: **McCall Development**
TOTAL SQUARE FEET: **8,000 sq ft live/work townhomes, plus 360 residential units**
USES: **Retail, Office**
TYPE: **Live/Work**



PROJECT OVERVIEW: Josephine Crossing is a 360-unit residential neighborhood with an additional 8,000-square-foot planned for commercial development. After several iterations of planning the commercial space, McCall Development decided to create several live/work townhomes. This approach is expected to be the most marketable design, offering residents the option of creating a ground-level storefront if desired.

LESSONS AND IMPLICATIONS: In planning the commercial portion of Josephine Crossing, McCall Development got input from existing residents to understand the types of businesses that the community desired. However, construction costs for the commercial spaces increased during the planning period, to the point that costs were expected to exceed revenues either from sale or lease of the units. There is a limited market for commercial space in this neighborhood, as there are only 360 homes. The location of the commercial space was further limited by a deed restriction, so the developer did not have flexibility to create the commercial property in an area that would better serve the community both inside and outside Josephine Crossing.

To address these challenges, McCall Development elected to build live/work units instead of strictly commercial spaces. Live/work units are expected to perform well in the current real estate market and will still create a mix of uses in this development. Additionally, the small amount of commercial space means that the bulk of revenue from the development will come from the more predictable residential portion, which reduces risk to the developer.

TIER B CASE STUDY PROFILES

Eagle Ranch Village Eagle County, Colorado

Quick Facts: DEVELOPER: **Eagle Ranch Village, LLC**
TOTAL SQUARE FEET: **120,000**
USES: **Retail, Office, Residential, Entertainment**
TYPE: **Horizontal Mixed-use**



PROJECT OVERVIEW: Eagle Ranch Village is located one mile from an interstate highway and 30 minutes from the world-class Vail ski resort. The project will feature 120,000 square feet of commercial space, with 70,000 square feet already constructed, and the remaining 50,000 square feet set to include dining, entertainment, and health care facilities. Eagle Ranch is still undergoing construction, and has several built-to-suit retail spaces for rent, with lease rates negotiable.

LESSONS AND IMPLICATIONS: While the development has met with great success in creating desirable residential units for the local market, it has had difficulty securing and retaining tenants for retail and office spaces. The project has had difficulty retaining non-anchor, or "inline," tenants due to the lack of a recognizable anchor tenant beyond the Capitol Theatre. It also arguably lacks the population required to support it in addition to the existing historic downtown commercial core. Additionally, discerning how much retail should be built before more residential construction is completed and occupied can be challenging. Different types of retail depend on different numbers of households to support it (see Table 6 for more details).

In order for Eagle Ranch Village to compete with more established commercial centers in the surrounding area, and to lure new tenants, it must recognize existing market voids, both niche and traditional, and tailor its development to the needs of a potential retail anchor that can attract tenants and consumers. In addition, continued build out of Eagle Ranch's residential component can only add to the viability of additional commercial development in that location.

Eagle Ranch also offers interesting lessons related to the pluses and minuses of building a new "town center" in a community that has an existing downtown. Great care needs to go into thinking about how the two can be complimentary and well-connected. Done correctly, it is likely that the two centers can be synergistic, but it is also possible that a new town center pulls some activity and spending power out of the existing downtown, particularly in a community with a smaller population that may not be able to support both.

Great Northern Town Center Helena, Montana

Quick Facts: DEVELOPER: **Alan Nicholson – City of Helena**
TOTAL SQUARE FEET: **150,000**
USES: **Retail, Office, Residential, Hotel, Entertainment**
TYPE: **Vertical and Horizontal Mixed-use**



PROJECT OVERVIEW: This development is a revitalization project of an old rail yard on 11 acres in uptown Helena. The project features a mix of residential (120 units), retail, office, restaurants, a hotel with conference facilities, and a science center. Construction originally began in 1998, and it is still not fully built out. Currently, there are several large lots available for lease between 55,000 and 60,000 square feet, with negotiable rates. Available properties at the center include spaces between 800-1,200 square feet for lease rates between \$10-13 per square foot.

LESSONS AND IMPLICATIONS: This project was unique in that the financing was made possible through a relationship with a local bank, Mountain West, which became the anchor tenant within the development. In addition to the favorable relationship with Mountain West, a key factor for the development was the strong partnerships in place between public and private stakeholders who worked together to see the development built.

A takeaway from this project is that having an invested anchor tenant financially support the project is highly advantageous. This development also serves as an example of how revitalization projects can become mixed-use developments through strong partnerships and a shared vision among developers and the city.

Solstice Missoula, Montana

Quick Facts: DEVELOPER: **Homeward, Inc.**
TOTAL SQUARE FEET: **17,400 SF commercial space,
34 residential units**
USES: **Retail, Office, Residential**
TYPE: **Vertical Mixed-use**



PROJECT OVERVIEW: Constructed in 2011, Solstice was built on a site that had previously contained a large parking lot and old bowling alley. Residential units are affordable rental housing. Solstice was the first commercial and affordable housing project in Montana to attain LEED certification for environmentally responsible building design and efficient use of resources. The project was made possible through funding from various partners including the city of Missoula, the Missoula Redevelopment Agency, a bank, a non-profit affordable housing group and others.

LESSONS AND IMPLICATIONS: Solstice is a small-scale, mixed-use development built to the highest environmental building standards. It is an example of a public, private and non-profit collaboration to bring together the necessary resources to successfully fill a need in the community.

While vertical mixed-use development can be challenging in communities of Missoula's size, this project was unique in that not only was it a small-scale, infill project, but it also included an affordable housing component, bringing together unique financing opportunities to make it viable. The developer, Homeword Incorporated, generally utilizes the IRS Low Income Housing Tax Credit (LIHTC) program to finance its affordable housing projects. The LIHTC program generates private investor equity to offset the cost of construction. Homeword combines that equity with public grants (such as a Community Development Block Grant or HOME grants), private grants and permanent mortgage debt to finance its projects.

Depending on project type and location, Homeword leverages public support with private equity. In Missoula, where Solstice is located, Homeword works with the local redevelopment agency to utilize local public dollars generated through the tax base via tax increment financing, which can be used to pay for necessary public infrastructure improvements like water, sewer and street lights.

Willits Town Center Basalt, Colorado

Quick Facts: DEVELOPER: **Mariner Real Estate Management, LLC**

TOTAL SQUARE FEET: **800,000**

USES: **Retail, Office, Residential, Hotel**

TYPE: **Horizontal Mixed-use**



PROJECT OVERVIEW: The development is on a 15-acre site in the small, rural community of Basalt, Colorado. When completed, the development will feature 800,000 square feet of retail and office space, residential units, and two hotels with underground parking. The project was able to attract the national grocery chain, Whole Foods, which serves as the anchor for the development. Currently, the project is only about 40 percent complete, and has had three owners thus far. Prior to securing Whole Foods and receiving significant financial support from the town for the completion of necessary infrastructure projects, the development struggled significantly and construction was stalled.

LESSONS AND IMPLICATIONS: The numerous changes in ownership and bankruptcy issues that surrounded this development demonstrate some of the barriers that arise when attempting to create a mixed-use development. The costs of building the necessary infrastructure, and the need to attract anchor tenants make these types of projects very challenging to create in less densely populated areas.

During the recession, as the development was moving into foreclosure, the town of Basalt committed to spend up to \$500,000 to build a roundabout needed at a key intersection at the entrance to the development. This essentially created a public-private partnership with the new developer, who had to pay the rest of the infrastructure cost of about \$600,000. The town manager at the time said the investment was worth it because completion of the development would spur greater sales tax revenues for the town. In essence, the funds spent on the roundabout would be paid back many times over. This public contribution is what ultimately helped "sell" the development to a new developer and got construction back underway.

The true turning point for this project was landing its commercial anchor, Whole Foods, which has enabled the site to grow and draw other national retailers, including Starbucks, along with several local and regional retailers. Since Whole Foods' successful location to the Willits Town Center, the interest in new on-site development has grown as well. In February 2014, Silverwest Hotel Partners teamed with developer Mariner Real Estate Management to propose a 113-room hotel on site, which was approved by the town and will begin to be built in spring of 2014. Ed Mace, a partner for Silverwest, stated that the presence of Whole Foods validated the demographics of the area to their firm and sealed their confidence in the viability of the project.³²

Historic Sears Building

Butte, Montana

Quick Facts: DEVELOPER: Kujawa Development, LLC (Nick Kujawa, President)

TOTAL SQUARE FEET: 80,000

USES: Retail, Residential

TYPE: Historic Redevelopment

PROJECT OVERVIEW: The Sears building in Butte was built in the early 1900s and was home to a ground-floor market and an above-floor apartment dwelling for miners in the area. The building was abandoned in the 1970s due to the mine's closing and came into municipal ownership. Eventually the city put out requests for redevelopment proposals as part of an overall revitalization effort in the area.

Nick Kujawa, a local resident and developer, saw an opportunity in the site and partnered with a local construction company to transform it into a mixed-use development. The project now features a ground-floor grocery store with four levels of market-rate apartments above.

LESSONS AND IMPLICATIONS: Through the vision and determination of the developer and the assistance of local banks and federal programs—including New Markets and historic tax credits—a historic building in Butte was able to be transformed into a viable mixed-use project. An important factor in this project was that the developer came to the project with personal equity up front and performed vital market research of the area to determine an appropriate use for the building. Market-rate rentals in the downtown were lacking at the time, so that is what the developer focused on.

The combination of financing assistance and market analysis were pivotal in the success of this redevelopment project.³⁴ The development group invested significant owner equity to undertake the project, and through assistance from the New Markets Tax Credits (NMTCs), established by Congress in 2000 to “spur new or increased investments into operating businesses and real estate projects located in low-income communities,”³⁵ he was able to leverage a \$2 million NMTTC investment. Additionally, the project was awarded \$1.5 million in historic tax credits as well as a \$1.35 million low-interest loan from the Butte-Silver Bow Urban Revitalization Agency. Because these funding sources were secured, a regional bank was willing to finance the remaining need. These loans and financial incentives helped turn an entrepreneur’s vision into a reality and brought new life into the area through the restoration of a historic building.³⁶

When the Sears Building Lofts initially went up for rent, prices ranged from \$595 a month for a one bedroom to \$1,400 for a penthouse suite, which was above average for Butte at the time.³⁷ Today, the project is capturing a premium of about 25 percent more than other residential rentals of comparable size. The success of this project proved to the developer that the market was viable for downtown housing. He has since completed a market-rate condominium project, Hirbour Tower, in downtown Butte. Hirbour Tower was also a redevelopment project of an historic, eight-story downtown building, and now consists of seven condominiums. Like the Sears lofts, this project was also made possible through creative financing, leveraging funds from the local Urban Revitalization Agency and local banks. All condominiums have sold, primarily to empty nesters interested in downtown housing.



TIER C CASE STUDY PROFILES

Hotel McCall McCall, Idaho

Quick Facts: DEVELOPER: **John Carey**
TOTAL SQUARE FEET: **3.4-acre site**
USES: **Retail, Restaurants, Office, Residential, Lodging**
TYPE: **Historic Urban Mixed-use**



PROJECT OVERVIEW: The original Hotel McCall was built in 1904 and rebuilt after a fire in 1937. John Carey purchased the building and surrounding property in 1995 and began significant remodels and expansion, all the while maintaining the building's historical character. The new property includes not only lodging but also retail, restaurants, professional offices, residential units and a city park.

LESSONS AND IMPLICATIONS: Community and stakeholder involvement was critical to the success of this project. The developer worked closely with the city and a thorough public process helped to develop design ideas for the building, sidewalk and landscape improvements. In the end, the Hotel McCall exceeded the city's requirements for sidewalk width and design. The outdoor spaces and city park have become important public gathering spaces, hosting a bi-weekly farmer's market during the summer months. The thoughtful rehabilitation of this historical building in the downtown core has helped to bring life to downtown McCall, and to encourage additional development in the neighborhood.

The Waters Building Red Lodge, Montana

Quick Facts: DEVELOPER: **Peter Lewis**
TOTAL SQUARE FEET: **8,000 square feet**
USES: **Commercial and Residential**
TYPE: **Main Street Commercial**



PROJECT OVERVIEW: In 2006, the owner of the Waters Building in downtown Red Lodge, Montana replaced the outdated 1960s storefront with a style appropriate to the early 1900s—the time of the building's original construction. There were four commercial spaces on the ground level, with three residential units above. The owner converted all seven spaces into condo units. Condo conversion gives the owner the option to easily sell individual units—or to lease them—depending on the real estate market.

LESSONS AND IMPLICATIONS: The city of Red Lodge has been working to revitalize, preserve and enhance its historic downtown since the 1980s. Officials have worked in collaboration with the chamber of commerce, the downtown association and local non-profits. The local government also works closely with developers, providing research from the county historic preservation officer and offering frequent consultation with the local planning office. Additionally, in 1997, the city adopted a development code that encourages the preservation of the historic character of buildings.

The restoration of the Waters Building has been well-received in the community, in large part because the owner restored the historic character to the facade. The project has also been successful through providing small, inexpensive residential units - a housing type not well-represented in Red Lodge - within walking distance of downtown. All units are currently occupied, with a mix of commercial uses on the ground floor and residences above.

Case Studies: Summary and Implications

Each of the case studies above is unique in terms of location, timing, and market demand. However, successful projects share a number of common elements. These include:

- **Population density and a critical mass of traffic**
- **The presence of an established anchor for larger-scale developments**
- **The developer had a deep understanding of the local market, recognizing local needs, and attracting tenants to fill those needs.**
- **Amenities such as promenades, outdoor seating, public spaces and events that draw people to the development**
- **Development appropriately scaled to the surrounding area**
- **Favorable market conditions and high demand**

Successful mixed-use developments comes in all shapes and sizes, from large, multi-faceted projects like Bown Crossing, to small, single-building redevelopments like the Hotel McCall. In many cases, mixed-use development occurs in incremental steps. For example, in response to complementary demands in a particular area, one developer may build a commercial building, while a neighboring developer builds a residential building. Or, a small commercial development—with a corner store, coffee shop, and handful of offices—is created in a residential subdivision.

The neighborhood becomes “mixed- use” as a result of these small, single-use pieces coming together, much the way traditional main streets and neighborhoods developed in the past. Advantages of this approach are that banks are often more willing to finance single-use buildings, developers have fewer challenges in the construction phase, and many cities already have some allowance for this type of development in their zoning and codes. This incremental approach could be successful in communities of any size, and it might be the best approach for mixed-use development in many smaller communities.



COMMON CHALLENGES AND IMPORTANT CONSIDERATIONS FOR MIXED-USE DEVELOPMENT

Though mixed use development represents a market opportunity in many areas, developers of mixed-use projects face a number of barriers. Several of the more common challenges, opportunities and other important considerations are described below.

Population Density Creates Critical Mass

A critical mass of people is needed to support the multiple components of a mixed-use development, which makes population density a key component of successful mixed-use areas (whether they are individual developments or larger districts). Large-scale mixed-use development is a challenge in areas that lack population, which includes many smaller cities and towns of the Rocky Mountain West. For that reason, most (but not all) mixed-use development in the region occurs at a smaller scale and incrementally, rather than as a large, master-planned development. Many of the most successful mixed-use areas are actually an aggregation of several individual, single-use projects that, together, create a neighborhood or district with a mix of uses.

Financing

Gaining the necessary financing is one of the biggest challenges to mixed-use developments. In many communities in the Rocky Mountain West and throughout North America, single-use development has become more common than mixed-use and lenders prefer to deal with projects that they recognize. Although many mixed-use developments generate revenue, the lack of examples of profitable mixed-use developments in the region cause lenders to be cautious.

Mixed-use developments are still seen as riskier than the more predictable, tried-and-true formulas of single-use projects. Single-use projects are viewed as simpler to construct with lower capital requirements and a lower possibility of encountering leasing problems. Without fully understanding the financial implications of a mixed-use development, many lenders will either not finance the prospective project, require more equity, or require risk premiums from the developer.

Since it can be difficult to secure financing, local banks invested in the community can provide much needed leverage for mixed-use projects. Many developers and city planners say that the completion and success of mixed-use projects rests heavily on the support of local banks. Developers also mentioned that public-private partnerships can help to offset significant upfront costs, particularly to pay for necessary infrastructure.

Attracting Anchor Tenants

A successful commercial component is essential for all mixed-use developments, since these tenants provide rent, revenue and employment, as well as attract visitors and residents. These factors all contribute to the vibrancy that mixed-use developments seek to establish and that make projects desirable for a community.

As shown through the Willits Town Center project example, the importance of acquiring a recognizable anchor tenant for a large mixed-use development project cannot be understated. The anchor tenant does not have to be a national chain—the Bown Crossing development is anchored by a local brewery and the Great Northern Town Center is anchored by a local bank.

Whether it be a local business or national chain, having a prominent anchor attached to a project is essential for obtaining long-term tenants. The projects MXD examined that were able to secure an anchor tenant early on showed much greater success in attracting other commercial tenants.

Understanding Market Conditions

Understanding market conditions and demand is essential for all successful developments. The Lofts at 1201 in Durango and Solstice in Missoula recognized and designed their developments to address the needs and desires of their community and were in a better position to meet them. A crucial first step is performing a detailed market analysis in order to understand the potential for new development and redevelopment in a city. Conducting due diligence can help developers secure financing by demonstrating an understanding of the local market, regional development patterns and trends and the viability of a mixed-use project within a select site and area.

Understanding existing and possible future competition is also critical to avoid the cannibalization of tenants by big box retail, strip commercial retail centers or suburban office parks. Certain tenants, even national retailers, who do not have experience in locating in mixed-use projects, may decide to locate in projects that they are used to and perceive as carrying less risk.

Understanding Mixed-use

While some municipalities have begun to encourage mixed-use developments to revitalize certain neighborhoods, developers and local governments can sometimes take an overly simplistic view of what mixed-use comprises. Many developers whose primary experience is in residential development will develop a project that is overwhelmingly residential (80 percent or more), attach small elements of other uses, and label and market it as mixed-use. This generally occurs when developers are pushed by municipal policies to construct mixed-use. However, residential developers who are not experienced with the complexities of mixed-use building design, construction, and marketing face a steep learning curve and are less likely to be successful.

Construction Concerns

The costs and time required to construct mixed-use buildings, particularly with vertical projects, create considerable complications for developers. Construction costs can increase dramatically with building vertical mixed-use and high-amenity construction. Local developers and brokers confirmed that construction costs dictate development and that in an area with a vast amount of developable land, the market conditions and demand often did not justify the creation of more expensive mixed-use projects. In other words, in many parts of the West, sale or rent prices may not be enough to offset the cost of construction.

Mixed-use project expenses include soft costs, land costs, construction costs, common area and amenity costs. These costs require higher capital/financial requirements that are driven by architecture, structure and mechanical and electrical systems. The combination of different uses on one site entails more sophisticated engineering, design and construction. For example, ground-floor retailers may not want columns interfering with their store layout, so design and construction teams may have to create designs that meet the store's needs, while still creating a structural base for condominiums or offices built above.

Due to complexities like these, mixed-use developments usually take longer to build. Longer development times can result in missed market opportunities and sensitivity to changes in the development landscape, particularly as different components have their own cycles of viability. Patience and longer-term financing can be required from the developer, as there are longer lead times needed before profits are realized compared to single-use developments. Having the flexibility to ride out delays or market downturns, as with West Park Promenade, puts the developer in a much more favorable position.

Mixed-use developments also require a more sophisticated management program during construction that includes the skills to manage a range of land use types to properly phase the development in order to coordinate

cash flows to satisfy lenders and equity investors. This can put less-experienced developers, particularly those who have a history with only single-use developments, at a disadvantage.

Providing appropriate parking can also be costly, especially the underground parking usually required for vertical mixed-use buildings. However, by nature, most mixed-use projects should require less parking than conventional single-use, auto-oriented development. With residential units in close proximity, and convenient connections for foot and bicycle traffic and public transit, mixed-use development offers developers a solution to the costly parking requirements of other development options.

Federal Policy Restrictions

Mixed-use developments have faced barriers from the Federal Housing Administration (FHA), which greatly restricts the amount of commercial space that can be included in a project and still be eligible for federally-insured mortgages.³⁸ FHA rules stipulate that government-insured mortgages for condos in mixed-use buildings are only available to projects that have commercial footprints that do not exceed more than 35 percent of the total gross floor area. This position stems from FHA concern that one component of a mixed-use development could fail, ultimately placing strain on other components of the property, such as residential.³⁹ Under such standards, small mixed-use buildings were placed in a higher-risk loan category that could not be resold on secondary markets, therefore making banks unwilling to make the loans in the first place.⁴⁰ This has led to mixed-use developments focusing on the commercial aspects of a project, neglecting the opportunity of residential components.

Modernize Zoning to Reduce Policy Barriers

A recurring theme from discussions with planners from various cities is the need for reformed zoning policy that will accommodate mixed-use development throughout the region. Though it is clear that cities and planning departments are widely in favor of mixed-use development, certain zoning regulations have not been updated, which can act as a barrier to mixed-use development. Additionally, single-use residential zones can also be thoughtfully spaced to include some commercial uses in areas within a walkable distance of residences. This would enable the “complete neighborhood” and horizontal mixed-use development typologies.

Several planners stated that in line with the emerging trend toward denser mixed-use developments, many cities are actively adjusting zoning by-laws to become more flexible. However, getting these changes approved is a lengthy process. In order for areas to experience and encourage mixed-use development, there needs to be flexible zoning policies in place to accommodate it.

Redevelopment Opportunities

Throughout the Rocky Mountain West, historic and vacant buildings in downtown areas could be redeveloped into mixed-use developments. These aging commercial properties are often situated in prime locations, can be revamped quickly and present less expensive options for developers looking to construct properties in the downtown core. One barrier to this option, in certain cases, is that property owners are reluctant to sell off underutilized and decaying buildings in a depressed market. As they wait for real estate prices to rise, what could have otherwise become a thriving downtown core results in blight. This acts as a deterrent to investment and interest from development pioneers willing to create mixed-use development in the area.

The redevelopment and conversion of large commercial properties, such as outdated regional malls or underutilized business parks, also provide good opportunities for developers to create large-scale, mixed-use projects on brownfield sites.

IMPLEMENTATION

Mixed-use Development Tools for Municipalities and the Private Development Sector

The previous section described the major barriers to mixed-use development. The following section provides strategies and tools that municipalities and developers can use to help improve the viability and profitability of mixed-use development in the Rocky Mountain West.

Mitigation of Top Challenges and Barriers

Table 7: Mitigation of Challenges and Barriers

| CHALLENGE/BARRIER | MITIGATION TECHNIQUE |
|--|---|
| High development costs | Carrying costs can be decreased by quicker absorption. If land is publicly owned, use tools such as land leases, land write-downs and other incentives to offset high land costs. If building has historic value, utilize tools such as historic tax credits to off-set costs. (See Historic Sears Building case study.) |
| Longer development times = potential missed market opportunities | Implement a flexible and well thought-out phasing plan where each component is introduced due to market demand. Design the buildings so that they can be built out differently depending on certain market opportunities. (See Josephine Crossing and West Park Promenade case studies.) |
| Financial lenders view mixed-use as high risk development | Have the public sector and NGOs spur education and understanding of mixed-use developments and their financial viability in certain markets. Use of P3s also brings more certainty to lenders. Also consider building single-use projects adjacent to other single-used projects that, combined, create a mixed-use environment. (See Hotel McCall, Great Northern Town Center, and Solstice case studies.) |
| Potential conflicts between uses | Greater soundproofing between retail, entertainment and residential. Place one floor of offices between ground floor uses and residential. Create transition zones such as a town green/plaza or a hotel between residential and conflicting uses. (See Bown Crossing case study.) |

Zoning

Municipalities across the West have promoted mixed-use development by 1) adopting planning policies that encourage mixed-use as part of the long-range comprehensive planning process, 2) incorporating language into the zoning code that allows for mixed-use zoning districts and 3) creating design guidelines to communicate the intent and goals of each district to developers and citizens.

MXD examined the mixed-use zoning policies of several municipalities to recognize what the public sector is doing to encourage mixed-use development.

TIER A COMMUNITIES:

- **Fort Collins, Colo.** utilizes mixed-use zoning primarily to accommodate and introduce commercial uses into existing residential districts. The city categorizes mixed-use zoning through three density clusters: low, medium, and high density mixed-use neighborhoods. Low and medium density mixed-use is the most

widespread. High density mixed-use zoning is only found next to the local university, to accommodate retail commercial next to dense student housing. More information can be found at: <http://www.fcgov.com/zoning/>

- In **Boise, Idaho**, areas with mixed-use zoning are typically found along commercial corridors with the intent of introducing retail near residential areas. This tool is successful at introducing commercial uses, both large and small format, into and near neighborhoods. Vertical mixed-uses are primarily kept in the central business district where they would more feasible from an economic perspective. More information at: <http://pds.cityofboise.org/planning/>
- **Bozeman, Mont.** has three types of mixed-use zoning: “urban” in areas where mixed uses are desired; “historic” in long time industrial/residential neighborhoods; and “residential emphasis,” which limits non-residential uses to 30 percent of total built square footage. Bozeman’s code is also written to strategically space single-use zoning districts to enable the development of complete neighborhoods. More information at: [http://www.bozeman.net/Departments-\(1\)/Planning/Plans-and-Planning](http://www.bozeman.net/Departments-(1)/Planning/Plans-and-Planning)
- **Billings, Mont.** has designated “entryway mixed-use” areas on the community fringe to encourage mixed uses along these corridors. More information at: <http://mt-billings.civicplus.com/index.aspx?NID=755>

TIER B COMMUNITIES:

- **Helena, Mont.** has created a residential/office district that acts as a buffer between residential and commercial office areas. A large portion of the city is zoned in this category, although it is most prevalent on the edges of the downtown area. The residential/office zone allows historically residential structures to be occupied with businesses, allowing commercial uses to reuse existing building stock in transitioning areas. All residential uses are permitted, restaurants and hospitality establishments are conditionally permitted, and retail commercial uses are not permitted. More information at: <http://www.helenamt.gov/cd/planning/zoning.html>
- **Nampa, Idaho** has a “residential professional” zoning district, which has been successful at incorporating employment-generating uses near multiple family areas. In one location, for instance, a large recreation center, a health care center, and a hospital are located across the street from a relatively dense, multiple-family residential subdivision. Immediately to the south is a regional retail power center. More information at: <http://www.cityofnampa.us/index.aspx?NID=255>
- **Rifle, Colo.** has created a mixed-use sub-district on the edge of its historic core. Zoning within the sub-district allows for vertical mixed-use at a smaller scale and horizontal mixed-use with a diverse land-use pattern including residential, retail, and entertainment components. Rifle also uses planned unit developments to promote and regulate mixed-use projects. The review criteria encourage project designs that “integrate a variety of housing types and commercial uses.” Although historically, developers used planned unit developments to build low-density residential projects, the current regulations discourage those single-use designs. More information at: <http://www.riflenco.org/index.aspx?NID=288>

TIER C COMMUNITIES:

- **Buena Vista, Colo.** has an “old town mixed-use overlay,” which allows for both residential and commercial use, while still requiring preservation of existing community character. This overlay includes the whole downtown, as well as nearby commercial corridors and adjacent residential neighborhoods. More information at: <http://buenavistaco.gov/Planning-and-Zoning>

ZONING SUMMARY

Among the municipalities surveyed, mixed-use zoning districts are typically found outside of central business areas and downtowns along major commercial corridors or adjacent to established residential neighborhoods. In general, cities designate land as mixed-use zoning districts to achieve two end results. First, cities use mixed-use zoning to encourage desired development on vacant land, typically in peripheral areas near community entrances or around the fringe of central business districts. These are catalyst areas intended to create new amenities and

housing, or to revitalize underused sites and transition them into commercial centers with complementary residential uses.

Second, cities designate mixed-use districts to provide a land use buffer between residential areas and business districts, thereby providing commercial spaces in proximity to residences. In these areas, market conditions typically allow for low or medium density structures that can accommodate a variety of uses. Whether an area is zoned to encourage a transition into mixed-uses or if the area is zoned to match the existing or historical mixed-uses, many western cities realize zoning can be a valuable tool in achieving a denser, more diverse, and more urban land use form.

Form-Based Codes

Zoning is one tool that local governments can use to promote desired land uses. Another powerful option is form-based codes, which set regulatory standards for the physical form of development rather than restricting uses. Form-based codes are different from traditional building codes because they enable predictable, high-quality results by using physical form, rather than separation of uses, as the principle element of the code.

Form-based codes address the relationship between the built environment and community spaces. The regulations and standards in form-based codes are presented in both text and clearly drawn diagrams and other visuals.

Many cities in the United States have adopted this system, including Miami, Dallas, Denver and Portland; however, form-based codes also work in small communities because the unit of urban design is the neighborhood and not the overall city itself.

Some places with form-based codes in our study area include Billings, Mont. and Cheyenne, Wyo. In Billings, the city incorporated form-based code in an industrial area, "...to allow existing uses to continue while integrating new mixed-use and residential development."⁴¹ The code regulates design standards, including frontage type, roof type, facade materials, landscaping, signage and street type. Land use is loosely regulated, with the code focusing more on similar or dissimilar uses rather than permitted or not permitted uses.⁴²



The city of Cheyenne adopted form-based regulations to encourage walkable, mixed-use development. Like other form-based codes in the region, Cheyenne's code regulates the type of building, frontage, setback, lot size and lot area.⁴³

Public Private Partnerships

'Public Private Partnerships' (P3s) are collaborative efforts in which the government and private sector work together to achieve common goals. Projects like Solstice in Missoula and the Great Northern Town Center in Helena are examples from the Rocky Mountain region where P3s have helped with mixed-use developments. P3s can be instrumental at all stages, from planning to construction, by addressing conflicts between all invested stakeholders, and balancing the risks, costs, and benefits of a project collectively.

While there are many different types of P3s, there are core benefits inherent to all:

- Reduced exposure to risk for the public sector through the use of performance-based contracts;
- Access to specialized private sector expertise and innovation result in more efficient project completion;
- Opportunity to strategically leverage public sector resources; and
- Jurisdiction to create private sector employment and business opportunities while achieving goals in the public interest.



In its most basic form, a P3 allows the government to contract with businesses for services—like garbage collection or road construction. These contracts help governments meet their responsibilities in a cost-effective manner, while conserving public resources, reducing exposure to risk and liability and allowing the government to benefit from innovation in the private sector.

Mixed-use developments may incorporate these traditional P3s or take another approach which enables the government to transfer an even greater portion of the risk to the private sector. For example, a government will design a contract for a mixed-use project that delegates most responsibility to the private sector partner, including tasks like project finance that would normally be borne by government. The private sector contractor must secure financing, design the building, oversee its construction and in many cases, commit to operating and maintaining the facility for a set period of years. The government

will pay the private sector partner a fixed, agreed-upon amount in monthly or annual installments to operate the facility, and built into this price is the private sector's financing costs and profit.

The key advantage of this approach is that it encourages the private sector partner to consider not only the cost of building the facility but also its operation. This frequently leads to efficient designs that can be constructed quickly and are also inexpensive to operate and maintain. A further advantage of this type of P3 is that it keeps the cost of borrowing off of the government's books and only a single monthly or annual payment must be factored into a government's budget.

An example of a development project that utilized this kind of P3 is Southlake Town Square in Southlake, Texas. The developer of Southlake Town Square was entrusted to finance, design, build and operate the project, while the city made payments to the developer that was then used for items such as parking structures and public spaces. The developer of Southlake Town Square continues to operate the mixed-use town center that houses not only retail and office, but the City Hall and public library as well. The city reimbursed the private developer for both public and private improvements to the site, including 40 percent of the cost for general public infrastructure, such as roads, and 100 percent of the cost for public park space. These reimbursements totaled over \$11 million dollars. Additionally, the municipal building and parking structure were included in the project and financing plan by the private developer and later purchased by the city.

Another option is for the government to enter into a joint venture with a private sector partner and provide land or financing in exchange for an equity stake in the project or the provision of public amenities such as libraries, cultural facilities or park space. In some cases, a development agency is specifically tasked with selling surplus properties and promoting policy goals. The agency may assemble parcels for a development, organize a land swap, rezone the properties first to create greater value or expedite permit approval. In some cases, the P3 culminates in a public-private joint venture from which the government receives profits or dividends.

Local governments have had many successes using P3s to achieve a broad range of goals. Whether it is providing land at a discounted rate to encourage development in a blighted area, constructing a parking structure in a mixed-use development, or acting as the master developer and equity partner among a consortium of private developers, there are many deal structures that can be arranged to push projects along and make them more viable.

Financing Tools

BONDS AND TAX INCREMENT FINANCING

A variety of local governmental financing tools are available which may encourage mixed-use development. Local governments commonly use municipal bonds, but they can become cost-prohibitive. Limiting factors may include concerns about a municipality's credit rating, the degree to which the government is leveraged, the trajectory of the local economy, and the nature of the capital project. The government can blunt these concerns by demonstrating that it has the budget room to service the debt, possibly through a tax increase or budget cuts.

Another option is to create a Tax Increment Financing (TIF) district in the geographic area of the capital project and tie the bond's financing to this new stream of revenue. Tax Increment Financing is a tool that allows local governments to capture the increases in land value in a specified area and use them for improvements in that area. First, the government defines the geographic limits of the Tax Increment Financing District, such as the central business district or downtown. Within that area, any increase in property tax revenues over a defined period of time is diverted to fund improvements within that designated district.

FEDERAL HISTORIC PRESERVATION TAX INCENTIVES

The Federal Historic Preservation Tax Incentives Program was created as part of the Tax Reform Act of 1976, which in its first 35 years of existence generated over \$66 billion in private investment.⁴² This program is one of the most cost-effective tools to assist in the revitalization efforts of cities, older neighborhoods and downtowns.

A 20 percent income tax credit is available for the rehabilitation of historic, income-producing buildings that are determined by the Secretary of the Interior, through the National Park Service, to be "certified historic structures."⁴⁵ This can help lower the overall costs for developers (public or private), and help to spur redevelopment in a city.



Some of the program details include:

- **The National Park Service, in partnership with the State Historic Preservation Offices, determines whether a historic building qualifies as a certified historic structure and whether the rehabilitation work preserves the historic character of the building and thus qualifies as a certified rehabilitation**
- **A rehabilitated historic building must be used for income production**
- **The rehabilitation must be significant, with a minimum improvement of \$5,000, or greater than the building's depreciable basis**
- **Total building rehabilitation must take place within 24 months, or a maximum of 60 months if phased⁴⁶**

This incentive program could offer cities the opportunity to revitalize older and depreciating areas into thriving mixed-use areas that are financially viable and productive, while still preserving the city's character.

SUMMARY AND RECOMMENDATIONS

Is Mixed-use Viable?

Many elements are in place in the Rocky Mountain West to successfully support mixed-use development. Local governments are generally supportive, the necessary zoning and municipal policies that can serve as models are in place in many areas, and consumer preferences are continually moving toward mixed-use neighborhoods. The numerous successful projects in the region over the past several years have shown that mixed-use projects are viable when implemented correctly. Additionally, demand for these development types continues to grow in response to a variety of market drivers.

Demographic changes, stemming from the aging Baby Boomer bracket and the emergence of Gen-Y, have shifted consumer preferences away from enclosed shopping centers, big-box power centers and strip malls, toward smaller-scale retail projects, complete neighborhoods, downtown commercial and mixed-use environments. Because of shifting preferences and the rise of online shopping, commercial development is facing a “right-sizing” adjustment, which works in favor for mixed-use and smaller scale commercial developments.

Still, in a development and lending environment that remains conservative after the recession, mixed-use development will continue to face barriers. Recognizing these challenges and the strategies for mitigating them will allow both public and private interests to achieve greater success, especially in communities that are targeted as prime areas for mixed-use development. One of the most important of these considerations is matching the appropriate type and size project with the proper location. Many small communities may not have the market feasibility to construct large-scale mixed-use developments, for example, but they are good candidates for main street revitalization and restoration of historic buildings.

Federal restrictions on condo financing are an important barrier to creating vertical mixed-use that includes residential options. This is a challenge that needs to be addressed at the federal level. In a more general sense, the lending community remains nervous about mixed-use as compared to more conventional commercial formats.

Communities wishing to incorporate mixed-use development should begin on a small scale to test the local market rather than attempting to develop large-scale, mixed-use development with no precedent in place. This will determine the viability of certain development types and demonstrate their benefits to the various stakeholders (public sector, private sector, financial lenders, etc.) who will be essential for continued mixed-use development in the future.



Keys to Success

Employing lessons learned from the market analysis, case studies, and mixed-use development principles, here is a list of likely keys to success for mixed-use development projects in the Rocky Mountain West region:

- Perform market analysis and feasibility assessments to understand the market demand for the project.
- Ensure that the mix and size of the development is correct and that anchor uses will continually draw people to the project.
- Look for precedence (both success and failure) in the local community and use them as learning tools.
- Create a phasing development timeline to ensure various parts of the project are constructed in line with market demand.
- Consider joint ventures with other developers who bring needed expertise in certain land use types and/or in mixed-use development project management.
- When creating or revitalizing mixed-use districts, including downtowns, expanding the existing housing stock – which brings wallets, foot traffic and overall interest to an area – can help drive commercial potential.
- Use public/private partnerships for larger-scale projects.
- Seek available government incentives that can assist in financing the project.
- Employ community participation throughout the planning and design of the project.
- Keep the project flexible and adaptable as market conditions may change.

Throughout the Rocky Mountain West region, much of the commercial developments that stand today represent the first generation of development on their respective sites. As these buildings reach the end of their life cycle, and they slip away from consumer favor, there will be opportunities to revitalize and redevelop them into mixed-use places. Whether this takes the form of infill development, street-wall development at the edges of the parking lots or wholesale redevelopment of the site into a new mixed-use project, these places represent a land bank of future development opportunities.

It is important to note that not all the onus lies upon the development community and retail tenants that lease the space. The public sector must continue to ensure that a streamlined development process is in place to motivate developers to build smaller-scale, mixed-use projects, rather than single-use commercial. When a development conforms to local zoning and design standards, it is critical that it not be delayed in the approvals process in order to help reduce front-end costs and capitalize on market opportunities.

Each example of mixed- and multi-use developments in the region increases the public and private sectors' familiarity and confidence in them. In time, it will become more commonplace to see these development types. We believe they will continue to capture a larger market share of new commercial development projects in the region.

APPENDIX

Community Typologies Methodology

To create the community typologies, MXD performed a cluster analysis. This analysis groups similar communities in the Rocky Mountain West region together using six datasets from the U.S. Census Bureau. These datasets represent the strongest indicators for interpreting and recognizing the type of development that can occur in certain municipalities:

- Population
- Population Change / Growth Rate
- Median Household Income
- Per Capita Income
- Median Age
- Education

The cluster analysis ranks each community on a scale from one to three for each category (population, population change, income, etc.) The median of all municipalities was used as a guiding point. Communities much higher than the median received a rank of three, and those much lower received a rank of one.

Based on the reasoning that larger cities typically have higher densities that can support mixed-use developments, population size was considered to be the most important factor in considering the feasibility of mixed-use developments in any particular location. For this reason, MXD assigned a weight of 1.5 to the population ranks. The other categories were not weighted (i.e., they were assigned a weight of one). After the rankings for all the categories were totaled for each community, the communities were clustered into three groups—Tiers A, B, and C—with Tier A representing communities with the highest total scores and Tier C representing those with the lowest total scores.

Commercial Format Lease Rate Performance Analysis

The tables show the properties used in the comparison and the listed lease rate per square foot. Gaps present in the analysis were due to a lack of comparable listed properties in certain areas, mainly Wyoming, which results in fewer properties from this state being represented.

Table A1: Commercial Real Estate Lease Rates in Tier A Communities (Sources: LoopNet and City Feet)

| CITY | STATE | PROPERTY FORMAT | ADDRESS/PROPERTY NAME | \$/SQ. FT. |
|----------------|-------|------------------------------|-----------------------------|------------|
| Fort Collins | CO | Strip/Convenience Center | 2350 Harmony Road | \$30 |
| Fort Collins | CO | Mixed-use (Retail Component) | River District One Block | \$28 |
| Fort Collins | CO | Mixed-use (Retail Component) | Mason Street, Downtown | \$24 |
| Grand Junction | CO | Mixed-use (Retail Component) | 454 Main Street | \$9 |
| Grand Junction | CO | Strip/Convenience Center | 2851 North Avenue | \$9-10 |
| Grand Junction | CO | Strip/Convenience Center | Bogart Lane Retail | \$9-10 |
| Loveland | CO | Strip/Convenience Center | 17th and Hover | \$24 |
| Loveland | CO | Power Center | Marketplace at Centerra | \$32-33 |
| Loveland | CO | Strip/Convenience Center | Thompson Valley Town Center | \$25 |
| Boise | ID | Strip/Convenience Center | Oliver Finley Plaza | \$14 |
| Boise | ID | Strip/Convenience Center | McMillian Crossing | \$19 |
| Boise | ID | Historic Urban Mixed-use | Block 44 | \$16 |
| Boise | ID | Strip/Convenience Center | Hillcrest Shopping Center | \$12-19 |
| Boise | ID | Mixed-use (Retail Component) | 500 W Idaho Street | \$15-16 |
| Boise | ID | Mixed-use (Retail Component) | Bown Crossing | \$17-18 |
| Boise | ID | Mixed-use (Retail Component) | One Front Center | \$19 |
| Boise | ID | Strip/Convenience Center | Fairview Avenue | \$18 |
| Meridian | ID | Mixed-use (Retail Component) | Overland Road and Wells | \$17-19 |
| Meridian | ID | Power Center | N. Eagle Road | \$23-24 |
| Meridian | ID | Strip/Convenience Center | Central Park Plaza | \$12 |
| Nampa | ID | Mixed-use (Retail Component) | 1st Street Market Place | \$10-13 |
| Billings | MT | Strip/Convenience Center | Broadwater | \$12 |
| Billings | MT | Lifestyle Center | West Park Promenade | \$12-16 |
| Bozeman | MT | Strip/Convenience Center | 81211 Gallatin Road | \$13-14 |
| Bozeman | MT | Mixed-use (Retail Component) | South Town Square | \$24 |
| Bozeman | MT | Main Street Commercial | 27 E Main Street | \$12 |
| Bozeman | MT | Strip/Convenience Center | 2700 West Main | \$23-28 |
| Bozeman | MT | Strip/Convenience Center | Milltown Plaza | \$12 |
| Casper | WY | Strip/Convenience Center | Hilltop Shopping Center | \$16-17 |
| Cheyenne | WY | Power Center | Cheyenne Marketplace | \$24 |

LEGEND

 = MIXED-USE  = SINGLE-USE

Table A2: Commercial Real Estate Lease Rates in Tier B Communities (Sources: LoopNet and City Feet)

| CITY | STATE | PROPERTY FORMAT | ADDRESS/PROPERTY NAME | \$/ SQ. FT. |
|-------------|-------|------------------------------|-----------------------|-------------|
| Idaho Falls | ID | Mixed-use (Retail Component) | Park and B | \$12 |
| Idaho Falls | ID | Historic Urban Mixed Use | 396 Park Avenue | \$11 |
| Idaho Falls | ID | Mixed-use (Retail Component) | Snake River Landing | \$20 |
| Idaho Falls | ID | Power Center | 17th and Ashment | \$12 |
| Idaho Falls | ID | Strip/Convenience Retail | Near Grand Teton Mall | \$12-13 |
| Kalispell | MT | Indoor Shopping Mall | Kalispell Center Mall | \$18-25 |
| Sheridan | WY | Main Street Commercial | 203 S Main Street | \$12 |

LEGEND

 = MIXED-USE  = SINGLE-USE

Table A3: Commercial Real Estate Lease Rates in Tier C Communities (Sources: LoopNet and City Feet)

| CITY | STATE | PROPERTY FORMAT | ADDRESS/PROPERTY NAME | \$/ SQ. FT. |
|-----------|-------|---|-----------------------|-------------|
| Driggs | ID | Historic Urban Mixed-use (office component) | RMB Building | \$10 |
| Victor | ID | Historic Urban Mixed-use (office component) | US Bank Building | \$12 |
| Sandpoint | ID | Main Street Commercial (office component) | 110 Main | \$12 |
| Sandpoint | ID | Office Park | Baldy Office Park | \$12-15 |
| McCall | ID | Historic Urban Mixed-use | 1014 N 3rd Street | \$10-16 |

LEGEND

 = MIXED-USE  = SINGLE-USE

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