

Exploring Sprawl

5th Issue in a Series

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The Costs of Development: Downtown vs. Open Spaces

Where businesses and developers choose to place their investments in constructing or renovating buildings - whether downtown or in suburban open spaces - is critical to the pattern of growth in Vermont. As increasing numbers of Vermonters voice concern about the spreading of commercial and residential development across the countryside, it is important to clearly compare the costs of suburban versus downtown development.

"Nobody builds on the edge of downtown because they hate downtown. They build on the edge because it is anticipated that their total value will be greater than their total cost," said Donovan Rypkema, a consultant on economic development who was the keynote speaker at a November 1998 conference, "Making Downtowns and Village Centers More Attractive for Development." The Montpelier conference was co-sponsored by the Vermont Forum on Sprawl along with 12 business, housing, jobs and municipal associations and the state's Downtown Program.

To prepare this report, the fifth in a series, the Vermont Forum on Sprawl combined information from the conference with data gathered from appraisers, developers, regulatory officials and others involved with recent or planned developments in both downtown and suburban Vermont locations.

The pages that follow summarize what this research found. A general section, "Comparing Costs," is followed by "Looking Closer," which examines specific types of development, along with specific issues - acquisition,

construction and regulatory - that face developers in choosing between downtown and suburban locations.

These comparisons clearly show that, if Vermont policy makers wish to encourage more growth in our traditional urban and village centers, the regulatory and cost factors that currently make downtown development more expensive must be addressed.

Eight Reasons Why Developers Choose Outlying Locations

1. **Land costs tend to be lower.** Purchase costs per square foot are typically higher in downtown areas. Also, more than one property may need to be assembled for a downtown project, adding time and costs. In outlying areas, greater available space usually means a simpler land purchase.
2. **Title problems are less likely to crop up.** Because they have a history of use, downtown properties often present complex title issues.
3. **Permitting is less complex and time-consuming.** Proposed downtown projects often require a complexity of permits, and may pose conflicts between permit and code requirements, and historic preservation guidelines.
4. **Zoning may be less restrictive.** Redeveloping a downtown building often involves a change of use, which triggers additional review under local zoning. Big buildings on small downtown lots often cannot meet zoning requirements for setbacks or parking. Seeking a variance or zoning change is costly and time-consuming.
5. **Site preparation is simpler.** Downtown construction often involves demolition of existing structures, while preparing a suburban lot may mean little more than clearing trees. The chances are considerably higher downtown that a project will encounter environmental hazards, unstable ground conditions, deteriorated infrastructure, or other complications - often unforeseen.
6. **Construction is simpler.** Downtown building projects often bring complex challenges: scheduling issues, neighbor relations, crane and staging needs, planned utility outages, even employee parking.
7. **Suburban buildings can be bigger** - and can more easily meet the standardized requirements of national merchandisers. The bigger a new building, the lower its square-foot costs for leasing. In smaller, downtown spaces, economies of scale are hard to obtain, and zoning may limit building heights. Also, corporate retailers tend to seek prototype rectangles with ample floor space. These are easier to provide on new, spacious suburban sites.
8. **Parking is ample.** Providing enough parking downtown for employees and/or customers can be a major zoning, convenience, and cost issue. The more sprawled in size a suburban lot is, the more parking area it

is likely to provide.

COMPARING COSTS

Developing Office Space

A developer contrasted the typical construction costs of a suburban vs. a downtown office building. Both hypothetical buildings are 60,000 square feet in total size; the suburban building is three stories high, while the downtown building, on a less spacious lot, rises to six stories.

This analysis includes only construction costs, estimated per square foot. It does not include the costs of acquiring a site. The analysis found:

Higher suburban costs for:

- * Sitework, on a larger lot with on-site parking; and
- * Roofing, with a larger roof area.

Higher downtown costs for:

- * General conditions: mobilization, crane, staging needs, and safety;
- * Concrete and steel: structural support for a taller building;
- * Fireproofing: to meet code requirements for a taller building;
- * Elevator: additional stops and hoist mechanisms;
- * Sprinkler, heating/ventilation/air conditioning; and
- * A 250-car parking structure.

Cost	Downtown Office Building	Suburban Office Building	Difference
Construction costs, w/o parking	\$65.68 / sq ft	\$61.29 / sq ft	\$4.39 / sq ft
Parking structure	\$41.67	N/A	\$41.67
Total	\$107.35	\$61.29	\$46.06

Source: Kessel/Duff Corporation

Without the parking structure, the estimated costs are 7.2% higher downtown. But with the 250-car parking structure, the downtown project is 75% higher in estimated cost. (No cost estimates were included for the suburban parking lot.)

Developing Commercial/Retail Space

A case study from the Town of Randolph offers a cost comparison for the proposed redevelopment of a supermarket - first on a downtown site, then at a shopping plaza outside the town center.

The proposed downtown project, since dropped, involved demolishing the current supermarket, acquiring seven adjoining sites, and building a 20,000

square foot supermarket. The outlying project, currently proposed, involves acquiring an existing shopping center and building a 34,000 square foot supermarket.

The developer reported these cost comparisons:

- * The total land cost of all seven downtown parcels was significantly more than the single, larger, outlying parcel. The downtown site also involved the costs of negotiating and retaining several purchase options.
- * Even though the town and the local downtown redevelopment organization supported the central site, the time and costs associated with it would not yield permits soon enough to satisfy one of the purchase agreements. To the developer, the risks and timeframe of the outlying site appeared less substantial.
- * Although building costs would be comparable, the downtown site also involved higher expenses for demolition and infrastructure improvements.
- * Estimated operating costs would be comparable for both projects.

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Developing Housing

The comparative costs of developing housing in downtown and suburban locations are affected by the nature of the project, the location and the site conditions. The research made these findings:

- * For a similar building, hard construction costs will be roughly equivalent. The costs will typically be higher downtown for land, demolition and general construction conditions (mobilization, staging and site safety).
- * Building townhouses in a suburban area will usually cost less per square foot than constructing a multi-story building downtown.
- * Rehabilitating a downtown building for housing purposes will typically cost more, per square foot, than building a new multi-family residential development. The need to remove or neutralize hazardous materials, such as asbestos, lead paint and underground storage tanks, can add 15-20% to construction costs in a rehabilitation project. Health and safety code requirements in older buildings can also add to project costs.
- * Rehabilitating older buildings for mixed uses can complicate a project and increase its costs, in part because of code requirements for separating residential and commercial uses. In two Chittenden County examples, the square-foot costs of a downtown, mixed-use rehabilitation were almost double those of a new, multi-story suburban apartment building.

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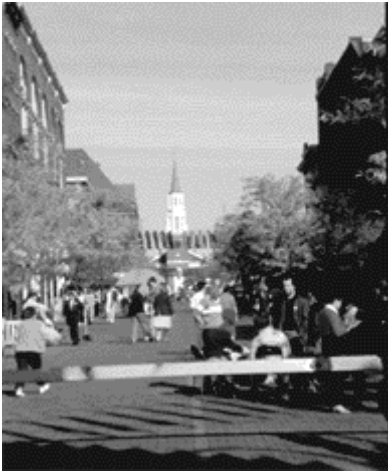
A Closer Focus

Specific Uses

Office

In many parts of the state, professionals clearly prefer to work in a downtown location - provided the downtown offers amenities, such as restaurants and business services. These preferences tend to outweigh the higher costs of renting or owning office space.

For businesses locating downtown, employee parking can pose issues. If employees pay for parking directly, the company's occupancy costs downtown are close to those for a suburban location. But if the company pays all or part of employee parking, either to a parking garage or by building and owning a parking facility, the total occupancy costs of downtown office space are typically 10-25% higher than the suburban alternative.



Commercial/Retail

For retailers, specific locations can make a big difference. Some downtowns with high retail sales per square foot - such as Manchester, Woodstock and Burlington - can justify higher square-foot development costs, and retailers there can accommodate higher rents. For example, rents on Church Street in Burlington range from \$16-\$25 per square foot, while those in nearby suburban sites are \$11-\$16 per square foot.

In the Connecticut River Valley, the lack of a sales tax in nearby New Hampshire affects developers' ability to attract and keep quality commercial tenants on the Vermont side. Also, the Vermont-side topography, with its broad flat areas, tends to promote commercial strip development. This adds to the severe challenges that face downtown commercial centers on the Vermont side of the river.

In general, corporate merchandising decisions can make downtown sites anywhere difficult to market to certain types of national and regional retailers. These stores look for prototype stores that are single-level rectangles, with floor space to fit their formulas and plenty of out-front, on-site parking. Site selection representatives have limited leverage to sell multi-level stores, or stores with different shapes, street parking, or parking out back.

The size of projects also affects their cost. The bigger a project, the lower its square-foot leasing costs will be. Downtowns with many small spaces have difficulty offering these economies of scale.

Industrial

To manufacturers, the capacity for an efficient production flow is the key factor in location decisions. In most cases, this involves a linear flow, which downtown buildings often cannot provide. Also, downtown facilities can be difficult to expand when a business needs to increase its work force or its shipping operations. Manufacturers often build new outside town because they cannot remodel existing downtown facilities to meet their expansion needs.

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Housing

Several developers said new downtown housing construction is impeded by the 35-foot, three-story height limit on buildings enforced by many local zoning ordinances. It is difficult, they said, to achieve enough housing density in three stories to support the fixed costs of a multi-story building.

The potential for redeveloping second and third stories of smaller downtown and village-center buildings is limited by the costs of complying with current codes. Typical market rents are not enough to amortize the development costs, support the fixed costs, and provide a reasonable return on investment.

Development Issues

Acquisition

The purchase prices of downtown properties often do not reflect unseen or contingent liabilities: environmental conditions, structural failures or costs of code compliance. Title problems are also more likely to arise in downtown sites with a complex history of ownership, division, easements, rights of way, etc. Downtown properties may have been allowed to deteriorate; this can be a significant disincentive to investment, in both these and adjoining properties.

A downtown development plan may require assembling multiple sites, and those acquisitions add time, complexity and costs. Also, the Vermont Land Gains Tax can discourage the acquisition, permitting and resale of downtown sites.

Construction

Downtown sites, with their history of previous use, may hide surprises - environmental hazards, unstable fill, archaeological significance or deteriorated infrastructure - that construction uncovers. On undeveloped outlying sites, these variables are much reduced.

Downtown construction also involves time-consuming sensitivity and accommodations to neighbors. Working hours can be limited; dust, mud and debris controls can be expensive; utility upgrades and hookups can involve planned interruptions of neighboring service. Limited space at downtown sites requires precise coordination of schedules, deliveries and materials storage. Vandalism and security can also be an expense. Even finding parking for

construction workers can be difficult.

For new construction, code requirements are typically straightforward. But developers seeking to renovate downtown buildings often run into conflicts between code and permit requirements, preservation guidelines and field conditions that can mean serious delays, cost increases and unsatisfying outcomes. The processes for resolving these conflicts are often slow and unclear.

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Regulatory

There is no regulatory "expressway" for downtown projects. They can involve levels of permitting complexity equivalent to out-of-town projects. Also, downtown sites typically have more neighbors and abutters - thus, more potentially interested parties in permit review.

A building redevelopment may involve a change of use, which can trigger additional review under local zoning. Often, big buildings on small lots cannot satisfy zoning requirements, such as setbacks or number of parking spaces. This means a lengthy, expensive bid for a variance or zoning change.

Finally, any successful retail business generates traffic and parking demand. Downtown, these impacts may be viewed as a problem, difficult to resolve. Suburban retail sites are set up for vehicle traffic - although the volume of traffic and parking needs generated by sprawl development is, for many, an increasing frustration.