Downtown Idea Exchange

Essential Information for Downtown Revitalization

March 2013

Perspectives

The smart math of mixed-use development

By Joseph Minicozzi

Asheville, NC, like many U.S. cities and towns, is hurting financially. It's not that Asheville is some kind of deserted ghost town — it's a picturesque mountain city with a population of about 83,000 that draws tourists from all over the world. Asheville also appeals to its residents, who revel in strolling about a true walkable downtown chock full of restaurants and retail shops featuring locally grown and crafted products. Downtown is not only one of Asheville's main draws; it also serves as a major driver in helping the city overcome its budgetary doldrums.

Most of us — city planners, elected officials, business owners, voters, and the like — understand that the city brings in more tax revenue when people shop and eat out more. However, we often overlook the scale of the property tax payoff for encouraging dense mixed-use development.

Many policy decisions seem to create incentives for businesses and property developers to expand just about anywhere, without regard for the types of buildings they are erecting. I would argue that the best return on investment for the public coffers comes when smart and sustainable development occurs downtown.

For example, Asheville realized an astounding 800-plus percent greater return on downtown mixed-use development projects on a per-acre basis compared to when ground is broken near the city limits for a large single-use development like a Super Walmart. A typical acre of mixed-use development in downtown Asheville yields $360,000 more in tax revenue to city government than an acre of strip malls or big box stores.

This comparison should serve as an eye-opener, both in terms of city policies and development priorities. The comparison should get municipal officials thinking about how to encourage more downtown development, and also about what kind of development could increase the value of buildings in the surrounding neighborhoods. It's not just officials in Asheville who should be asking these questions. In the diverse cities where we have studied this same equation (such as Billings, MT; Petaluma, CA; and Sarasota, FL) we've found that the same principle applies: downtown pays. It's simple math.

We often overlook the property tax payoff for encouraging dense mixed-use development.

The more valuable downtown properties become, the more revenue the city can generate to address its budget gaps, while also serving the best interests of its citizens. Unfortunately, our public officials may not always make decisions with full knowledge of the trade-offs.

For example, several years ago, Public Interest Projects (PIP), a for-profit development company founded in 1990, wanted to develop several parcels in a neglected section of downtown Asheville, just off the main core. The area was filled with decaying auto shops, warehouses, and semi-industrial space, and was ripe for mixed-use redevelopment. Unfortunately, while PIP saw visions of rehabbed living spaces intermixed with retail and office space, the leaders of Buncombe County had other ideas.

In close proximity to the parcels PIP was considering, the county owned a 1.7-acre parcel on which leaders first announced plans to build a new jail, then as an alternative, a 24-hour center for emergency vehicles. While few could argue that the community as a whole would benefit from the addition of such facilities, the county's plan to plunk one of them right in the middle of an area so ripe for redevelopment didn't make much sense to us at PIP.

Subsequently, we embarked on a comparative analysis of the impact of different development types and scales on the county's tax rolls as a way to demonstrate the comparable benefits of mixed-use development versus the facilities they were considering. We tried to show them the money.

To do that, we set about analyzing various properties within our community to come up with an estimate of what kind of infill development would be feasible for the county's site. What we found was striking. If the county continued with its plans for building the more objectionable uses, the loss of this property's tax base plus the detrimental effect on the surrounding properties' development potential could result in a net loss of more than $1 million annually in property tax revenue. That information got the county's attention and good sense prevailed.

Realizing that this application had broader implication, we began applying the same analysis to other key landmarks, including comparisons of a high-visibility shopping mall just outside of downtown with the historic Old Penney's building downtown, which we had restored into a six-story mixed-use structure. The mall, considered one of the county's biggest revenue generators, yielded $8,000 an acre in annual county property tax, while the downtown building's yield was $250,000 per acre.

We have been perpetuating an error when it comes to how we think about real estate. Our mistake has been looking at the overall value of a development project rather than its per-unit productivity. Especially relevant in these times of limited public means, every city should be thinking long and hard about encouraging, and not accidentally discouraging, the property tax bonus that comes with mixed-use urbanism. Density gets far more bang for its buck.

The flaw in our current property tax system is that when it comes to assessing how much a property owner owes, we place very little value on the land beneath a building as compared to the building itself. Compounding that issue is the fact that if you construct a building without innovative architecture or sustainable materials, you actually benefit by lower tax value. The combination of these two factors creates a disincentive for good architecture. The result is that the community loses in terms of the property tax it collects and the long-term legacy of cheap single-use buildings. We've created tax breaks to construct disposable buildings, and there's nothing smart about that kind of growth.

If we recognize that this policy is harming us in some way, it makes sense to change it. We simply cannot afford how the current system creates incentives for suburban sprawl — which is unsustainable both environmentally and financially. Communities across the U.S. are going broke, and we can rightly look to our municipal finance systems and our failure to fully appreciate the payoffs for density as a big part of the cause. Let's all do the math so we can make some positive changes in the system because, in the end, downtown pays.

Joseph Minicozzi, AICP is principal of Urban3 and formerly the New Projects Director for Public Interest Projects. He can be reached at (828) 255-7951, x208, or joe@urban-three.com. For more information on the work of the firm, go to urban-three.com. DIX