

The real star in today's commercial real estate market? Mixed-use developments

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HDA-DESIGNED TWO TWELVE CLAYTON, A MULTIFAMILY DEVELOPMENT IN CLAYTON, MISSOURI, WITH A PIZZA RESTAURANT ON ITS BOTTOM FLOOR.

These are challenging times in the commercial real estate industry, with high interest rates slowing both the sales of existing commercial properties and the development of new ones. That doesn't mean, though, that all asset classes are struggling equally.

One of the more successful commercial asset types today? Mixed-use developments that combine multifamily, retail, office or other property types in one building.

We spoke with Patrick Holleran, senior principal of business development, and Kent Wagster, principal, with St. Louis-based architecture firm [HDA](#) about the resilience of mixed-use developments and the reasons why these projects are often so successful.

Here is some of what they had to say.

Why are mixed-use developments in such favor today? Why is demand so high for these properties on both the tenant and investor sides?

Patrick Holleran: From an investor's standpoint, you have a broader renter base. There are multiple asset classes under one roof. It is consistent cash flow. The loss of one occupant has just a minimal impact on the revenue coming from that building. Compare that to an office tower that has a tenant taking 130,000 square feet. If that tenant leaves, the investors in that building are in big trouble. But when there is a mixture of uses, it's a little easier to absorb the loss of one tenant.

What about from a development standpoint? What makes these properties attractive to builders and developers? And what about for tenants? What do they like about mixed-use developments?

Holleran: When you develop one of these mixed-use projects you conserve natural resources. These properties also encourage walking. Tenants will walk to a restaurant or bar in part of the development. Green space is often a part of these developments. You have outdoor spaces where renters can get some exercise and socialize. This all combines to make these projects attractive to tenants. It makes it easier to fill the spaces in these developments.

For the people who live and work in these developments, the convenience factor is huge. The last thing people want to do is get in their cars and drive five miles for something small and essential. When you can walk to get those items? It makes a difference. Even if you can't get the item in the development in which you live, these mixed-use projects are often built in walkable communities in which you can find everything you need just a short walk away. That makes it very convenient for the people who live, work and play in the development.

I know there is a growing demand from people for walkability.

Holleran: It's so nice to have easy access to the things you need in your life, a coffee shop, gyms, medical clinics. A lot of developers crave these mixed-use developments that have the essentials that people need every day. It attracts people who want to live there and businesses that want to have an office there. It's an all-around good thing.

It fosters this sense of community. If you have enough nearby amenities, you might not even need a car. Walking is good for your health. You can take the elevator down and walk to the restaurant, café or wherever you might be going.

Kent Wagster: There is the socialization aspect, too. You meet more people when you are walking instead of driving. It also creates safety. You are in what feels like a little town or village. When there are more people around, residents feel safer. There are so many people who work from home today. That's a key factor, too. The younger generation likes to have everything at their disposal. It's easier to work from home when you are in a mixed-use development that gives you the opportunity to work in different places, such as a nearby coffee shop or restaurant.

What do developers need to keep in mind when creating a mixed-use development?

Holleran: To do it right, the development has to feel authentic. Developers need to be aware of where the building is and what the community needs. You can't just build a mixed-use development on any available parcel. You have to do your research. What is the community lacking? What does the customer base want? The development needs to feel authentic. Research has to be done to make a mixed-used development work well.

Wagster: It's important to remember, too, that mixed-use developments aren't just for younger people. They serve residents of all ages. Many older people are gravitating to mixed-use developments. We see some mixed-use developments with more of a focus on senior living.

What kind of research do developers need to do to boost the odds of their mixed-use development succeeding?

Holleran: A developer should work with a consultant to do a market study. How much retail is needed in an area? What types of retail is the area lacking? How much housing is needed? How many apartment units can you put in the area? Is there the need for office space?

You can work with someone to do a market study or do it on your own. Doing that research takes time, though. You need to talk to local brokers and businesses. You need to drive the area and look at local apartment developments. What amenities do new

apartment developments have? Were these new developments successful or did they miss the mark? Like anything you do in life, it takes research. It takes working with the right professionals and taking the time to do a good job.

What kind of amenities are renters looking for today in new apartment developments?

Holleran: There has to be a good blend of indoor and outdoor amenities. People want areas for pets. They want outdoor courtyards. Some of the courtyards at new developments are unbelievable. The pools and cabanas that they feature are amazing. They might have misters spraying cool air. You almost feel like you are at a resort. It feels like you are on vacation at your own home.

The indoor amenities are equally impressive. They have workout facilities dressed to the nines. You can be a professional bodybuilder and still work out in the gyms in some of these developments. You can take yoga classes. They have additional storage areas. Some of these multifamily developments are so sophisticated that they feel like hotels, and I say that in a good way.

Wagster: They are getting very elaborate. Some feature pickleball or bocci ball courts. They might have a wide, flat area for outdoor games, movie nights or social nights. On the interior, we are also integrating some office space that tenants and residents can lease or check out. Some have theater spaces that can double as an interior movie night area or a party room space.

How important is finding the right location for a mixed-use development?

Holleran: There has to be demand for a project like this. A good and experienced developer will have a very good feel for the neighborhoods in which a mixed-use development will work. A lot of them, for instance, are going up in old malls in the suburbs. Developers are buying those old malls and converting part of the space to big mixed-use developments with medical, multifamily, hospitality and office.

That's different from what we see in urban areas. In many of the urban areas, you need to develop vertical mixed-use developments. But again, it has to be in the right location. We are seeing with all these large office towers around the country a greater opportunity to reposition these properties for a multitude of uses. We will see some of these office towers converted to mixed-use developments. But it has to be the right location and right developer.
