

## **Economic Evaluation of Redevelopment Trends and Proposed Floor Area Ratio Revisions in The Eastside and Westside Neighborhoods**

February 12, 2013

To inform the Eastside and Westside Neighborhood Character study, Urban Advisors evaluated existing conditions, the economics of redevelopment and proposed floor area ratio (FAR) revisions in the neighborhoods. To accomplish this, we used data from the county's geographic information system (GIS) containing parcel data and assessor's data for all of the parcels in both neighborhoods as well as for the city as a whole.

The questions we sought to answer were:

- Does greater square footage confer value by itself or are there other factors that change value?
- How do lot size and unit size independently affect value?
- Does limiting size, by reducing FAR change the dynamics of the real estate market for units in these neighborhoods?
- Does an FAR limitation change current neighborhood affordability or are other factors leading to change?

This report presents data regarding neighborhood housing and discusses its meaning in relation to the questions asked.

### **Overall Conclusions**

The evaluation of economic factors led to the following overall conclusions:

- While overall values increase with house size, the value per square foot tends to decline, especially for houses with more than 2,000 square feet of floor area or FARs above 0.30.
- Based on existing property values, and the potential sales prices of new or expanded homes, most redevelopment is likely to occur on small to average sized lots (4,000 to 10,000 square feet) in the N-C-M zone district (115 to 125 such properties present prime redevelopment opportunities under current market conditions).
- The proposed reduction in maximum permitted FAR (Ordinance Option A) would not significantly affect redevelopment opportunities in the neighborhoods because the most profitable opportunities tend to be at FARs that are lower than the proposed limits.
- The proposed reduction in the maximum permitted FAR (Ordinance Option A) is not likely to have a significantly positive or negative impact on the affordability of housing in the neighborhoods.

The evaluation process and conclusions are described in greater detail in the following pages.

**General Lot and Building Characteristics of the Eastside and Westside Neighborhoods**

To understand the neighborhoods, we first assembled basic data regarding parcels and units. This data is shown in the following tables for each neighborhood.

**Eastside Neighborhood**

<b>Characteristics</b>	<b>Median</b>	<b>Average</b>
Lot Size	7,810	10,199
Unit Size	1,126	1,307
Unit Age	82	79
Stories	1.0	1.2
Bedrooms	3.0	3.0
Baths	1.75	1.77
Basement Size	408	475
Garage Size	286	293
Porch Size	296	371
Total Value per Building Square Foot	\$204	\$204
Total Value per Land Square Foot	\$33	\$34
Floor Area Ratio	0.158	0.166

<b>Westside Neighborhood Characteristics</b>	<b>Median</b>	<b>Average</b>
Lot Size	6,982	7,629
Unit Size	1,104	1,260
Unit Age	83	78
Stories	1.0	1.2
Bedrooms	3.0	2.8
Baths	1.50	1.58
Basement Size	168	406
Garage Size	280	292
Porch Size	336	406
Total Value per Building Square Foot	\$208	\$213
Total Value per Land Square Foot	\$32	\$36
Floor Area Ratio	0.161	0.174

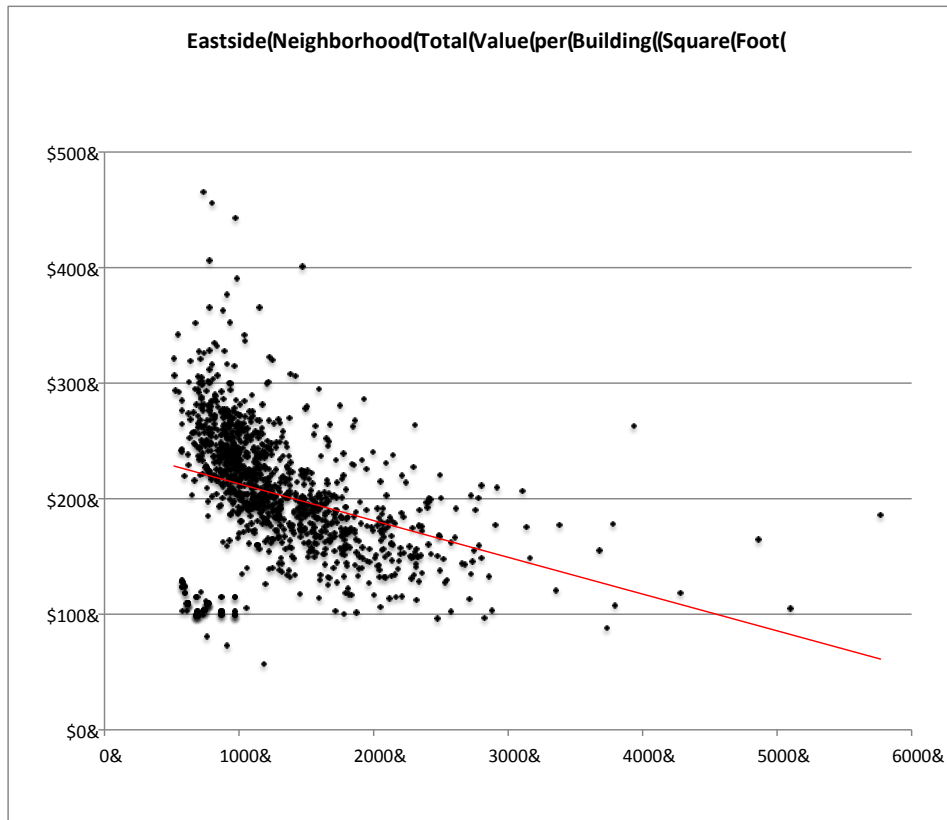
The tables above illustrate a number of differences in the neighborhoods, including:

- Lot sizes on average are larger in the Eastside neighborhood
- Units in the Eastside neighborhood are slightly larger on average
- Unit age is slightly greater in the Westside neighborhood
- The prevalence of multi-story houses is not significantly different
- The number of bedrooms per unit is not significantly different
- The number of baths per unit is slightly higher in the Eastside neighborhood
- The Eastside neighborhood has larger basements and garages on average
- The Westside neighborhood has larger porches on average
- Total value per building square foot is higher on average in the Westside neighborhood
- Land values and development intensity (FAR) appear to be similar, but have a greater range in the Westside neighborhood

The foregoing indicates that both neighborhoods were historically built with small houses at low FARs on typical lot sizes around 9,000 square feet. This combination of unit size and lot size yields a character that differs from newer suburban development and that many find charming. It may also relate to the neighborhood's higher home values on a per square foot basis than the citywide median of ±\$139.

### Relationship of Development Characteristics to Value in the Eastside and Westside Neighborhoods

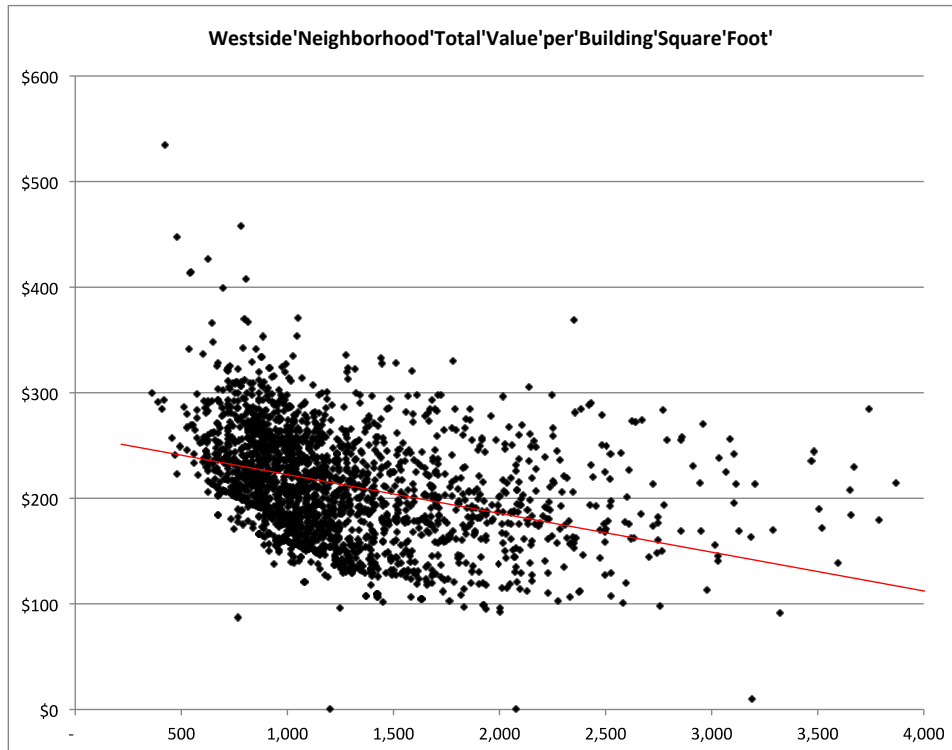
To gain a more finely detailed understanding, we prepared charts for each neighborhood showing the distribution of total value divided by building square feet, total value divided by square feet of land, and absolute value by FAR.



The chart above shows total value divided by building square feet for most of the residential parcels in the Eastside neighborhood. It illustrates that, as building size increases, the value per square foot tends to decline.

This is an important consideration in redevelopment, because as house size increases, value does not increase as much per square foot built. This change in value is a market limitation that means the largest new houses would not necessarily generate the greatest profit if resold.

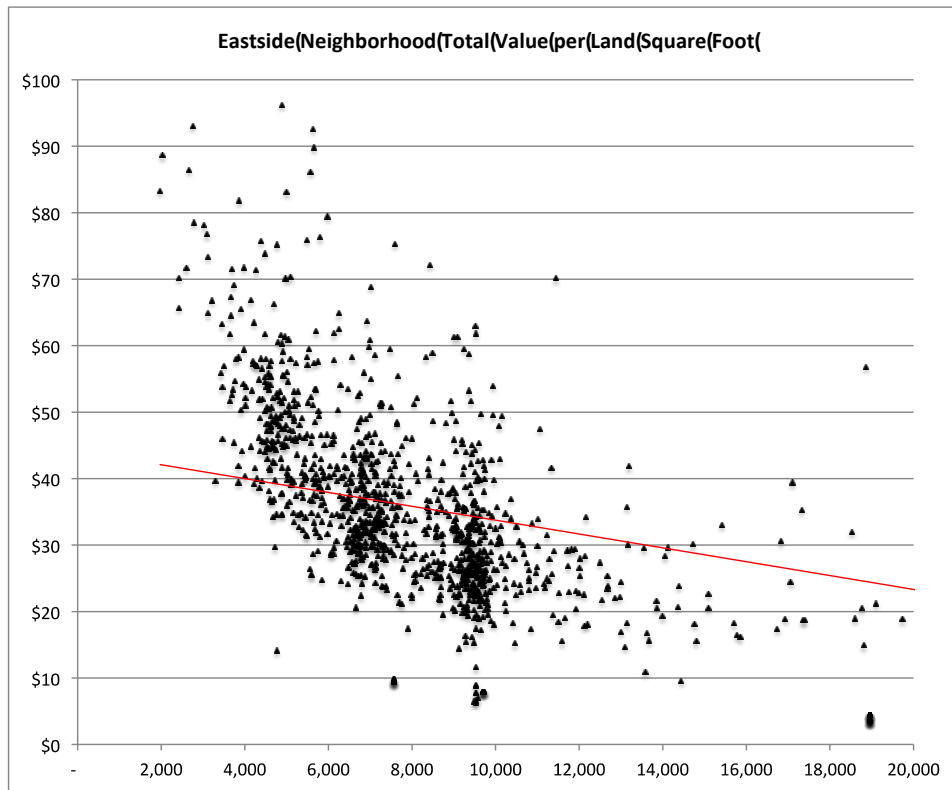
The same plot for the Westside neighborhood is shown on the next page.



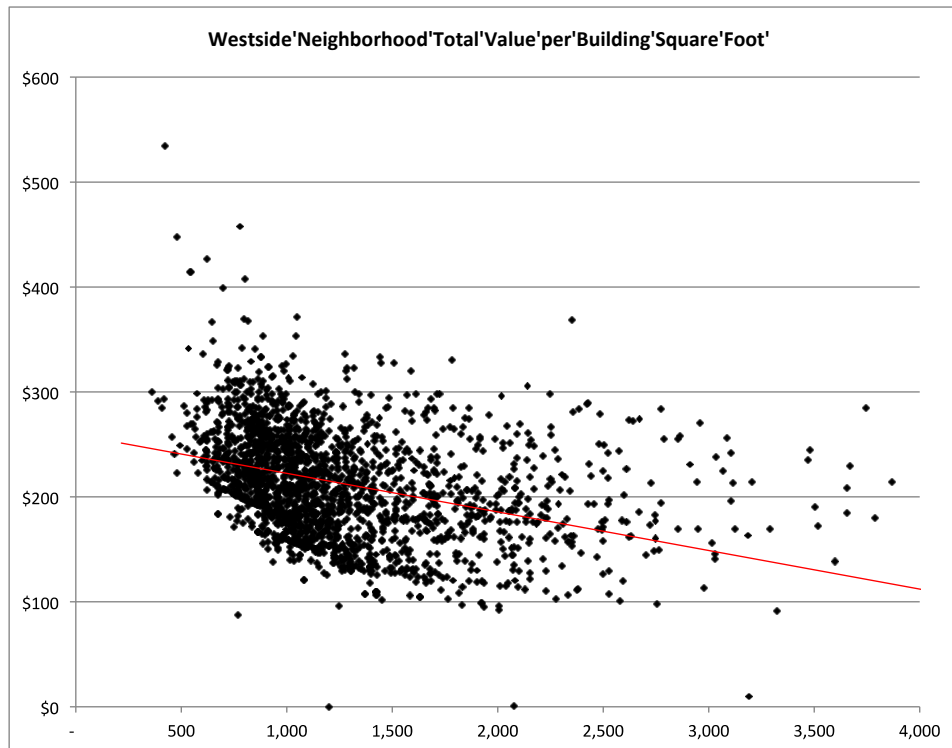
As in the plot for the Eastside neighborhood, the trend here is for value per square foot to decline as house size rises.

In both the Eastside and Westside neighborhoods, the cloud of higher value per square foot appears to be concentrated below 2,000 square feet per unit and highest in the range between around 800 to 1,500 square feet.

To understand the dynamics of lot size, we performed the same operation to create the charts below, plotting total value divided by parcel square feet.

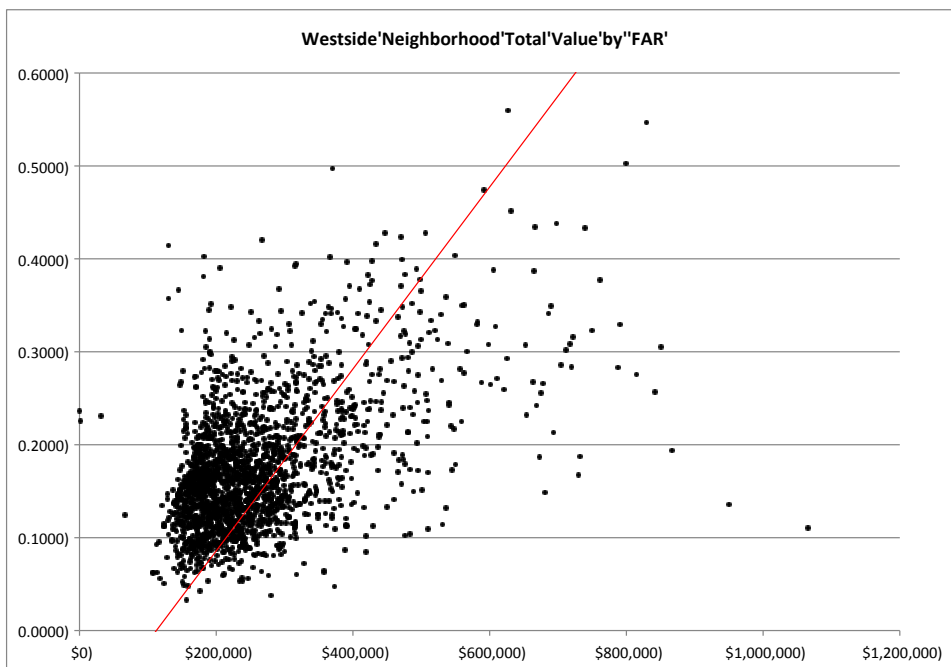
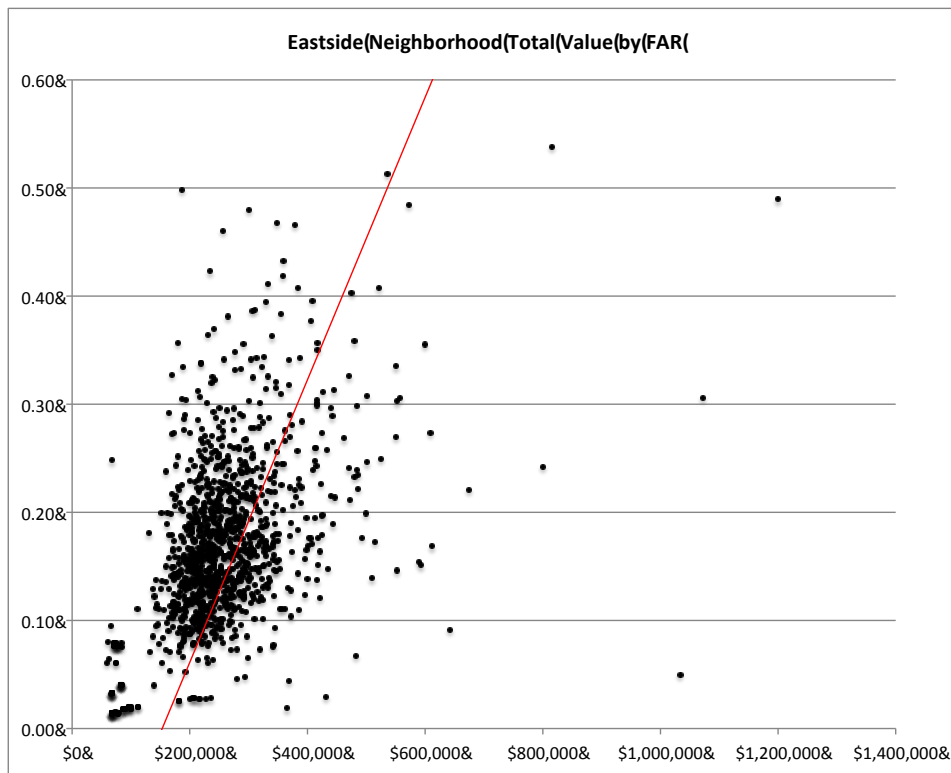


The plot of value by land square feet for the Eastside neighborhood shows highest value on lots of around 5,000 square feet or smaller, followed by lots between  $\pm 5,000$  to  $\pm 8,000$  square feet, with larger lots showing the lowest value per square foot. This is primarily because an average house on a small lot will confer a higher value per square foot of land than the same house on a very large lot. However, the plot of value by built square foot shows that, as house size increases, value decreases. This may indicate that as larger lots are built upon with larger houses, they do not create the same value per square foot.



The plot for the Westside neighborhood is similar to that of the Eastside neighborhood in showing declining square foot values for increasing lot sizes. However, it shows higher values per square foot of land and a wider range for those higher values, with lots at 10,000 square feet having the same total value per square foot at up to  $\pm\$80$  per square foot compared to  $\pm\$60$  in the Eastside neighborhood. It shows the same falloff in value, but at a slower rate than in the Eastside neighborhood. It is possible that the slightly higher FAR intensity in the Westside neighborhood is offsetting the market tendency to pay less per square foot for land and buildings as size increases.

This naturally brings up the question of the effect of larger houses on smaller lots. Does increasing FAR confer more value? To examine this question we created plots of FAR and value. These plots are shown below.



The two plots above show that as FAR rises, value rises. The trend line (with an r-squared over .9 in each case) shows the rather steep rate of change. At the same time, the trend line is misleading



because it is trending based on the very dense cloud of properties at the low end of both FAR intensity and value. As value rises above \$300,000 in each neighborhood, the relationship fails to cohere and a more realistic trend line would show a flattening, and in the case of the Westside neighborhood would trend almost sideways. Note that in virtually all cases, even high value parcels are below an FAR of 0.3 (the equivalent of a 1,500 square foot unit on a 5,000 square foot lot).

It becomes clear that increasing FAR can confer a value benefit, but only to a point. The dynamic that is shown in both plots indicates that rising over 0.3 is far less likely to result in a continued positive value change than the change from 0.1 to 0.3.

### **Redevelopment Opportunity in the Eastside and Westside Neighborhoods**

To investigate further, we looked at the redevelopment opportunities in the N-C-L and N-C-M zone districts and examined whether currently proposed revisions to the maximum FAR standard (Ordinance Option A) would be likely to have a specific economic impact. A parcel is considered to be a prime redevelopment opportunity when current market conditions would allow it be acquired, the house demolished and rebuilt or significantly expanded, and then resold at a sufficient profit. Because redevelopment opportunity appears to be much greater on lots between 4,000 and 10,000 square feet in the N-C-M district, the evaluation is concentrated on those parcels.

Current real estate sales information and City of Fort Collins GIS data indicate that homes in the Eastside and Westside neighborhoods typically do not sell for more than about \$800,000 with the exception of some homes designed and built for specific clients. Using this criterion, about 124 lots between 4,000 and 10,000 square feet currently represent prime redevelopment opportunities in the N-C-M district. If the maximum FAR standard were reduced (per Ordinance Option A), about 115 prime redevelopment opportunities would remain. The result of this evaluation confirms that changing FAR standards as proposed (Ordinance Option A) would put only limited constraints on market-driven redevelopment opportunities in the Eastside and Westside neighborhoods.

Because the proposed reduction to maximum permitted FAR is unlikely to significantly affect redevelopment opportunities, it is also unlikely to have a major impact on home prices in the neighborhoods, or affordability to buyers. Although FAR reductions may be viewed as a resource limitation that could push prices upward, real estate differs from commodities in that it is limited by the income of those who need it, and by the ability of the developer to profit from the purchase of the land. Redevelopment of existing parcels in the Eastside and Westside is self-limiting. Development will stop when the cost does not provide profit. Combined with the fact that the market does have a limited upper pricing, analysis shows that there is virtually no difference between proposed and existing regulations in the yielding of opportunities.

