

# BUILDING small

## & Missing Middle for Middle Incomes

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ULI Minnesota | 12<sup>th</sup> Annual Housing Summit

July 15, 2021

# Small Beginnings



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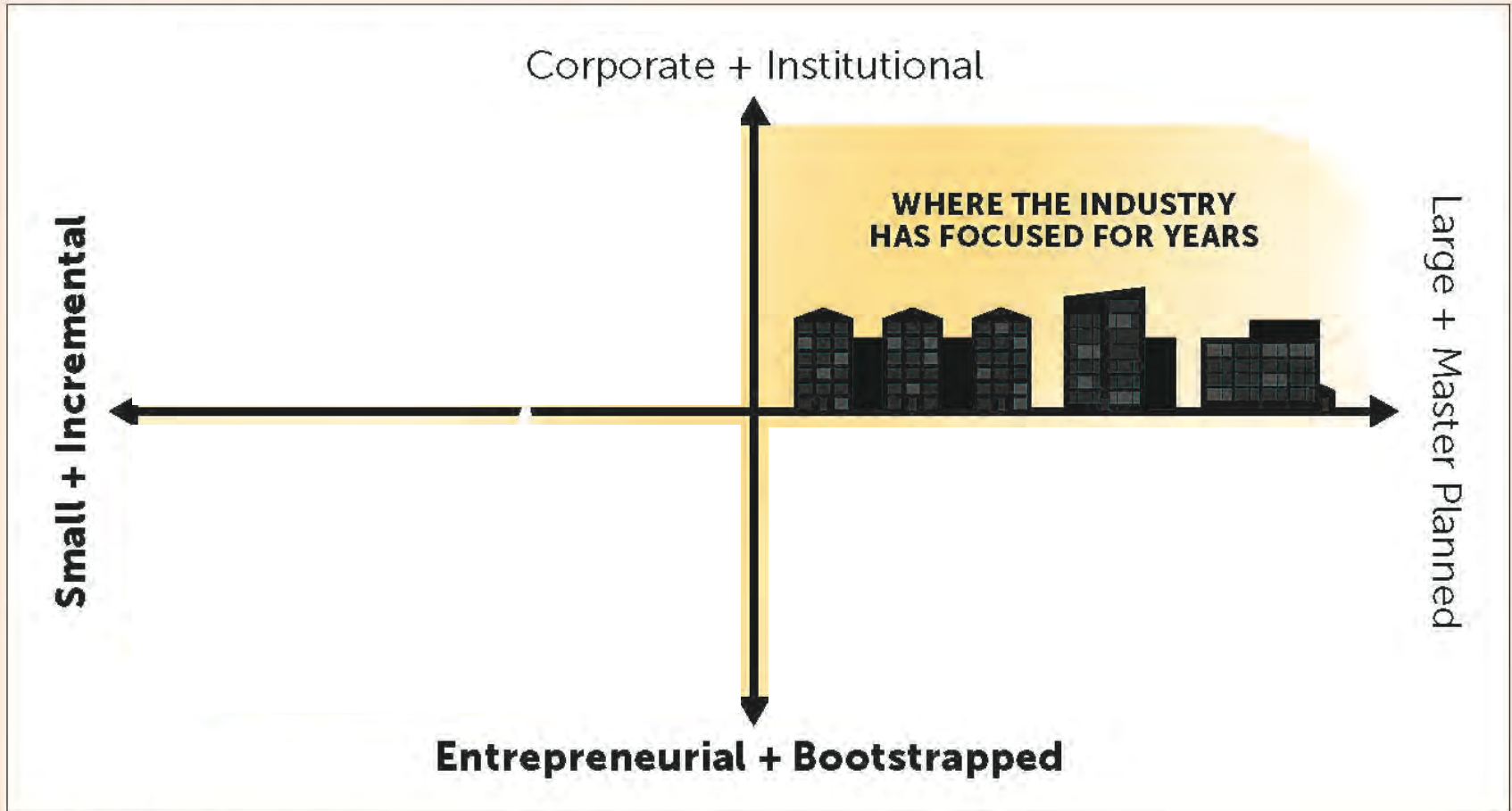
**BUILDING**  
small





SUMMERLIN, NV

## WHAT ARE WE TALKING ABOUT?







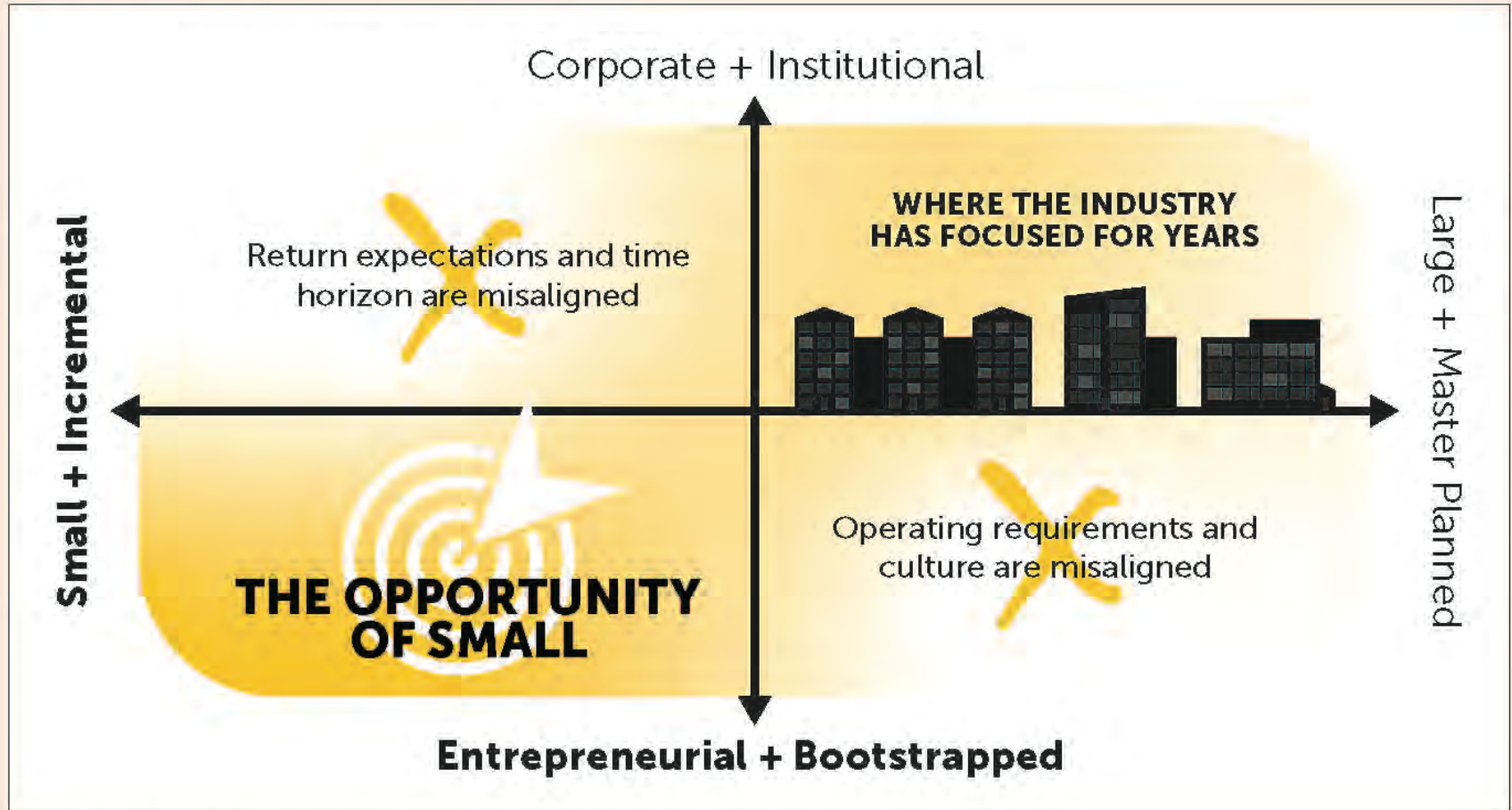
THE OCEAN (BEFORE) - PORTLAND, OR



THE OCEAN (AFTER) - PORTLAND, OR



## WHAT ARE WE TALKING ABOUT?



# ULI SMALL-SCALE DEVELOPER FORUMS, CASE STUDIES, AND SUCCESS STORIES



INDIANAPOLIS 2018



DETROIT 2016



MIAMI 2015





# BUILDING small

A TOOLKIT  
FOR REAL ESTATE  
ENTREPRENEURS,  
CIVIC LEADERS,  
AND GREAT  
COMMUNITIES



JIM HEID

## → how to use this book

THIS BOOK IS WRITTEN TO BE ACCESSIBLE, INSPIRATIONAL, AND PRACTICAL. Depending on your interest in *small*, you can read it from front to back, or you can enter any section that is of immediate interest to you. *Building Small* is intended to be more than a one-time read—acting as both a source of inspiration and a resource that can be visited and drawn upon time and again to make *small* a bigger solution.

The book is written for two primary audiences:

- **Developers, designers, and investors:** For those desiring to direct their personal efforts toward small-scale development, as either a career or a hobby, this book provides practical tips, from-the-trenches anecdotes, and selected

tools to illustrate how building *small* differs from larger, more conventional real estate development.

- **Civic leaders, public agencies, and their staff:** For this audience, the process of development is important to understand so the unintended

	FOR THE DEVELOPER AND ENTREPRENEUR	FOR CIVIC LEADERS, AGENCY STAFF, AND INTERESTED CITIZENS
what & why	<b>What defines <i>small</i>?</b> <b>Why is it important for communities?</b>	
	<ul style="list-style-type: none"> <li>Why <i>small</i> is a meaningful career path</li> <li>Why <i>small</i> builds stronger places, neighborhoods, and long-term value</li> <li>How <i>small</i> brands and differentiates bigger projects</li> </ul>	<ul style="list-style-type: none"> <li>Why <i>small</i> should be a key element of your economic development strategy</li> <li>How policy and planning decisions encourage—or preclude—<i>small</i></li> </ul>
how	<b>What makes <i>small</i> different from <i>big</i> to develop?</b>	
	<ul style="list-style-type: none"> <li>Finding sites and testing feasibility</li> <li>Legal tools to protect yourself</li> <li>Uses that work in <i>small</i></li> <li>Financing approaches</li> <li>Construction, design, market assessment, and approvals</li> </ul>	<ul style="list-style-type: none"> <li>How to become better partners to small developers, if that is what you want</li> <li>The challenge of financing <i>small</i> and how communities can help</li> <li>Added costs and risks that misaligned approval processes create for <i>small</i></li> </ul>
who	<b>What lessons have been learned from real projects and people building <i>small</i>?</b>	
	<ul style="list-style-type: none"> <li>How successful small developers build their firms</li> <li>Executing small projects: vision to opening</li> <li>Lessons learned from operating mixed-use small projects</li> <li>Creative financing strategies from real projects</li> </ul>	<ul style="list-style-type: none"> <li>How agencies changed their regulatory culture to encourage <i>small</i></li> <li>How nonprofits can also be successful small developers</li> <li>How <i>small</i> is used by a state agency to help transform economically challenged communities</li> </ul>

# Defining Small



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**BUILDING**  
small



THIS IS NOT SMALL



BEHOLDING  
small





THIS WAS *SMALL*

Credit: New York Historical Society





ACTIVATION OF THE PUBLIC REALM

## → the hallmarks of small

SMALL-SCALE DEVELOPMENT IS BEST IDENTIFIED THROUGH A SERIES OF HALLMARKS, OR QUALITIES, RATHER THAN THROUGH A SINGLE DEFINITION.

### SMALL:

- emanates from a **clear sense of purpose** from its sponsor, who often takes a triple-bottom-line and long-term-hold view;
- sees real estate development as a means to an end—the end being creation of great places that help with the **positive evolution of neighborhoods**, whether new, maturing, or those being rediscovered;
- builds on, and contributes to, existing neighborhood assets—such as **fine-grained street character** and an iconic neighborhood element (like a theater or landmark restaurant or business)—rather than trying to create something insular as its own amenity;



BUILDING BETTER



MOVING TOGETHER



EMBRACING NATURE



SHARING FOOD

### VALUES DRIVEN

ABOVE: Top: Piazza Hospitality's Spoon Bar activates the public sidewalk in Healdsburg, California. (©2020 David Baker Architects/Bruce Damonte) Bottom: Specialized Real Estate Group organizes its development around four key principles. (©2020 SREG)

- is generated by **entrepreneurial individuals** and organizations;
- starts with a clear vision that generally cuts against customary underwriting of highest and best use, instead **seeking a context** commensurate with the community;
- is not easily classified singularly as residential, office, or retail and is the antithesis of build-to-suit, striving for **long-term agility and flexibility**, resulting in real estate that is adaptable, resilient, and more future-proof;
- can involve adaptive use or be built from the ground up, though the overall goal is to **transform the building or site into an economic asset** and generate a positive community outcome and returns to the sponsor;

## THIS IS SMALL

### INCREMENTAL NEW BUILD



- requires an especially **disciplined approach to capital and execution** and a commitment to wealth creation—for the sponsor and the community—with local economic development as an objective; and
- requires more time and “emotional capital” per square foot than *big* because it seeks to be **contextually responsible, community responsive, and market differentiated**. This means capital, approvals, tenancing, and operations cannot be “off the shelf.”

ABOVE: Left: Raven Cliff Company's Half Mile North used an incremental building approach to forge a new district from an obsolete industrial area in Charleston, South Carolina. (© paulcheney.com) Top right: Dunn & Hobbes adapted a vintage car dealership into the Melrose Market food hall in Seattle. (©2018 Travis Gillett) Middle: Redesigned modular homes were used to provide missing middle housing in Mississippi post-Hurricane Katrina. (© Bruce Tolat) Bottom: Pivot Project used historic tax credits as part of a creative capital stack to revitalize the iconic Tower Theatre in Oklahoma City. (© Pivot Project)



### ADAPTIVE USE



### MISSING MIDDLE HOUSING



### CREATIVE FINANCING

BUILDING  
small

- Attitude and perspective
- Context and connections
- Experience first, then sales
- Ground up or adaptive use
- A bigger scorecard
- A means to an end



# URBAN



CHOPHOUSE ROW – SEATTLE WA





WINDSOR + THE NEWTON, PHOENIX AZ



# SUBURBAN





MODERN GENERAL, SANTA FE NM



RURAL



## → the argument for *small*

**SMALL PROJECTS OFFER ENTREPRENEURIAL DEVELOPERS** a way to get into the game. For experienced developers, *small* can provide a career path that harnesses their years of experience, while creating something more interesting and catalytic than the “institutional” projects that may have dominated their earlier career.

For localities, the case for small development is both intuitively simple and inordinately complex. The primary arguments are:

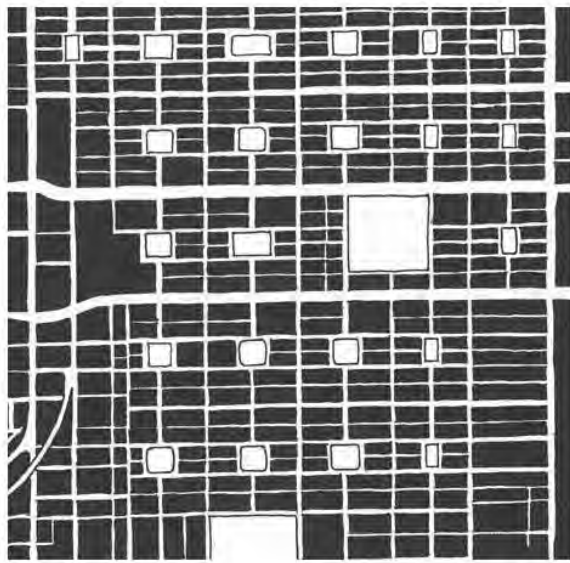
- ***Small* creates better cities and towns** that are more authentic, human-scaled, and interesting places
- ***Small* creates more value**—and tax base—per acre than large-scale development.
- ***Small* is more resilient**—better able to withstand external shocks and recover more quickly afterward.
- ***Small* creates a healthier local economy**, in part by attracting the kinds of talent, and hence the kinds of employers, cities and towns want.

As explained later in this chapter, the country is amidst a coalescing of economics, market desire, and changing demographics that sets the stage for the long awaited return to small-scale development. *Small* will not replace *big*, but it can become an important partner—or alternative strategy—for building great places in many communities across the country.

# Small Is More...

**BUILDING**  
*small*





# More Granular



**BUILDING**  
small



# More Vital



**BUILDING**  
small





lou lou  
When you buy  
from a  
SMALL BUSINESS,  
an actual person  
does a  
little happy dance

**More  
Local**

**BUILDING**  
small



# More Authentic

**BUILDING**  
small





CENTURY PARTNERS, DETROIT MI

# More Equitable

**BUILDING**  
small



# More.. More

## Older, Smaller, Better

Measuring how the character of buildings  
and blocks influences urban vitality

EXECUTIVE SUMMARY MAY 2014



[www.preservationnation.org/greenlab](http://www.preservationnation.org/greenlab)



THE KRESGE FOUNDATION



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# Small & the Missing Middle



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small

# HOW DO YOU DEFINE HOUSING?

*Get the language aligned*

## Price?

Deed Restricted  
Affordable or  
Market?

## Product?

Single Family  
Detached, Attached  
or Multi-family?

## Tenure?

Ownership  
or Rental?



# HOUSING by PRICE (Income)

## Subsidized

Affordable Deed Restricted

## Market

affordable  
affordable-by-design  
Entry  
Move Up  
Luxury

# HOUSING by PRODUCT (Typology)

## Single Family Detached

Estates  
Single Family Homes  
Cottages  
??

## Single Family Attached

Townhome  
Rowhome  
Duplex  
??

## Multi-Family

Triplex/ Quadplex  
Stacked Flats  
Mansion Apts?  
??

# HOUSING by TENURE (own or rent?)

## Ownership

*whole ownership and fractional*

Single family homes  
Duplexes and triplexes  
Townhomes  
Condominiums

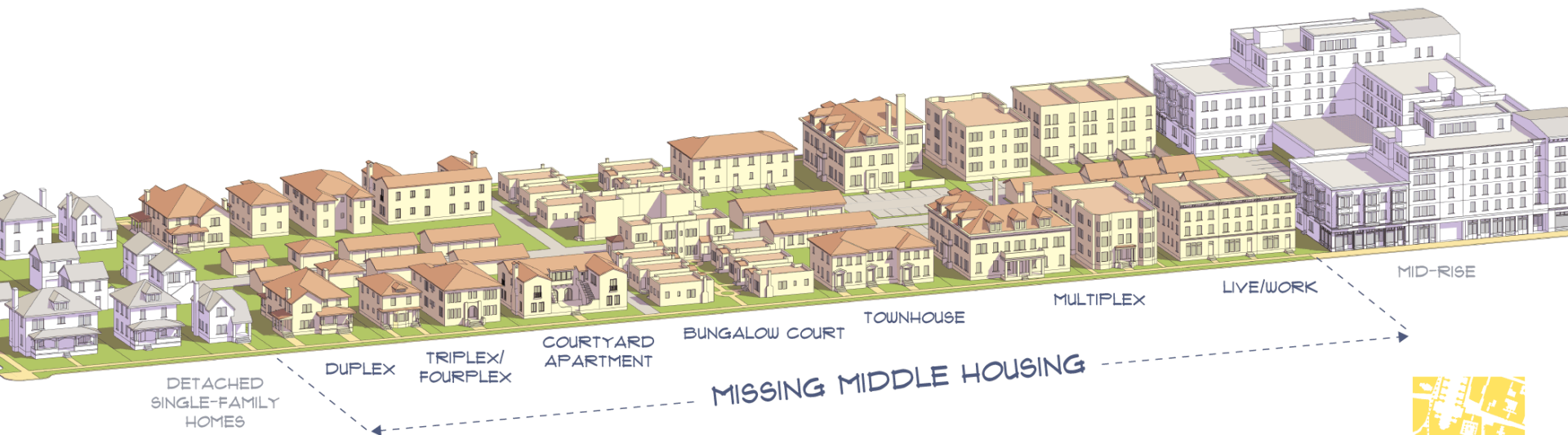
## Rental

*leased, short term vacation, co-living*

Single family homes  
Duplexes and triplexes  
Townhomes  
Apartments



# MISSING MIDDLE – the product



# MISSING MIDDLE - by income/ price



## **AFFORDABLE**

**30-120% of AMI**

Subsidized  
Multi-Family  
Single Family  
Attached

# MISSING MIDDLE - by income/ price

## AFFORDABLE

**30-120% of AMI**

Subsidized  
Multi-Family  
Single Family  
Attached

## MARKET

**160%\*+ of AMI**

Free Market  
Single Family Detached  
Single Family Attached  
Luxury Multi Family



# MISSING MIDDLE - by income/ price

## AFFORDABLE

**30-120% of AMI**

Subsidized  
Multi-Family  
Single Family  
Attached

## MISSING MIDDLE

**121-160%  
of AMI**

**No Subsidy  
Below Market**

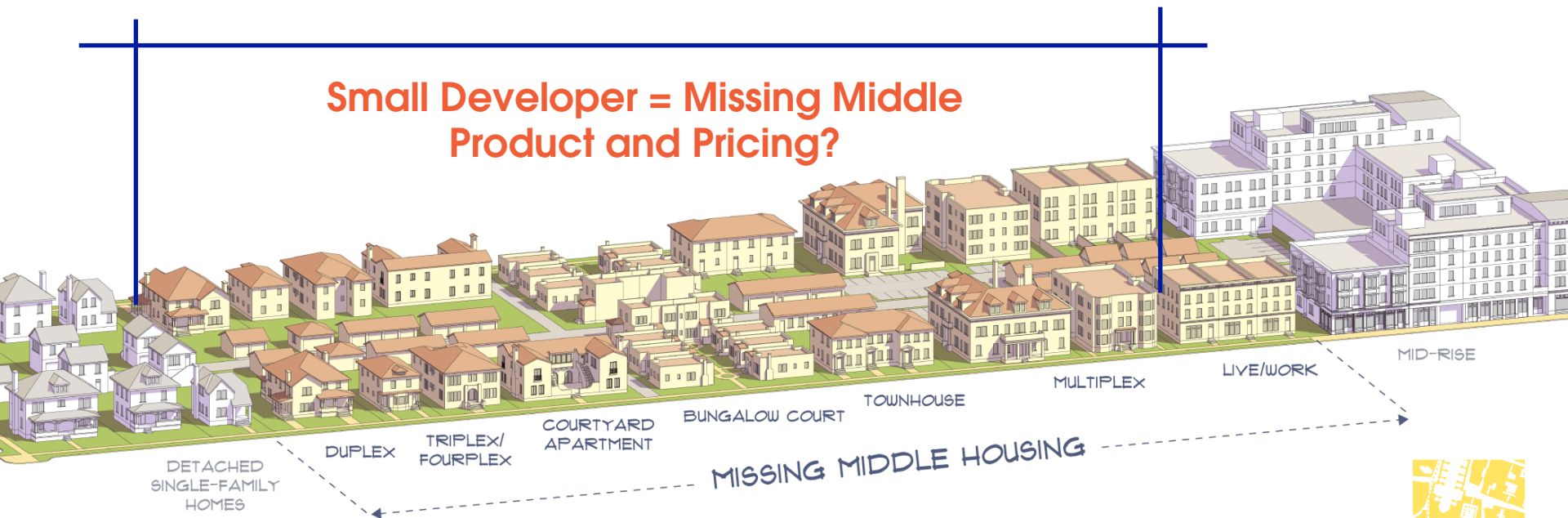
## MARKET

**160%\*+ of AMI**

Free Market  
Single Family Detached  
Single Family Attached  
Luxury Multi Family

# MISSING MIDDLE - both

Small Developer = Missing Middle  
Product and Pricing?



# Small Lessons



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# Alumina

## Oklahoma City, OK

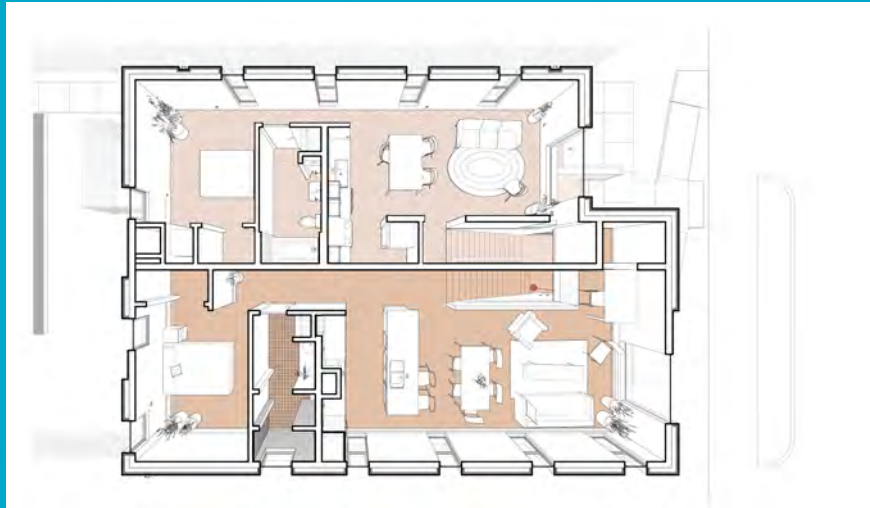
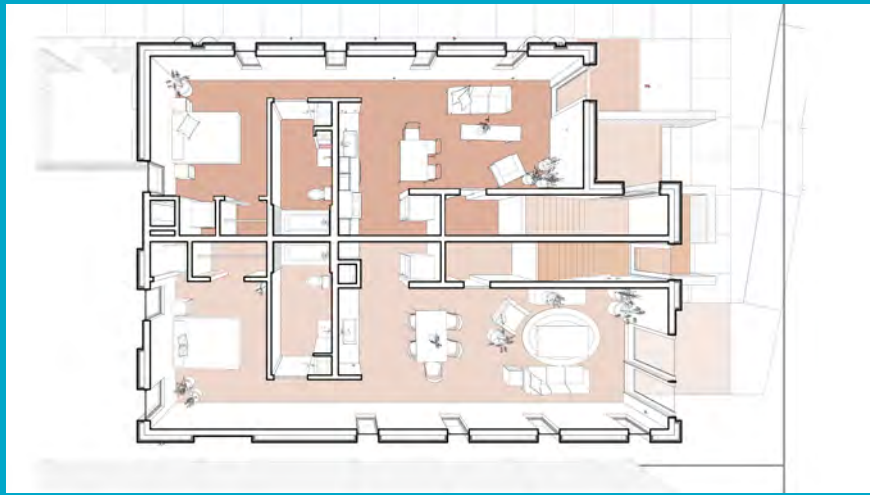
Sam Day

All Images: Leonid Furmansky

**BUILDING**  
small











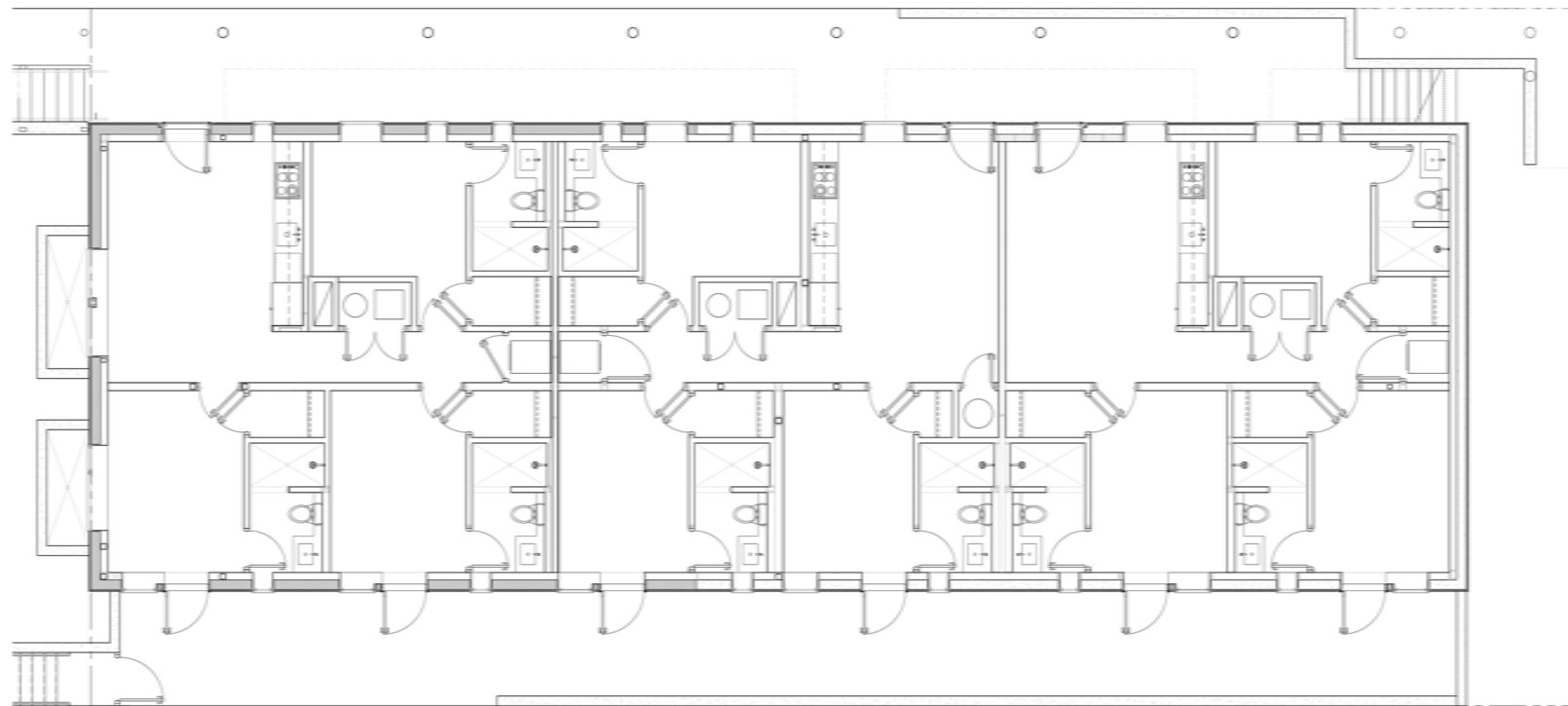
# Oslo

## Washington, DC

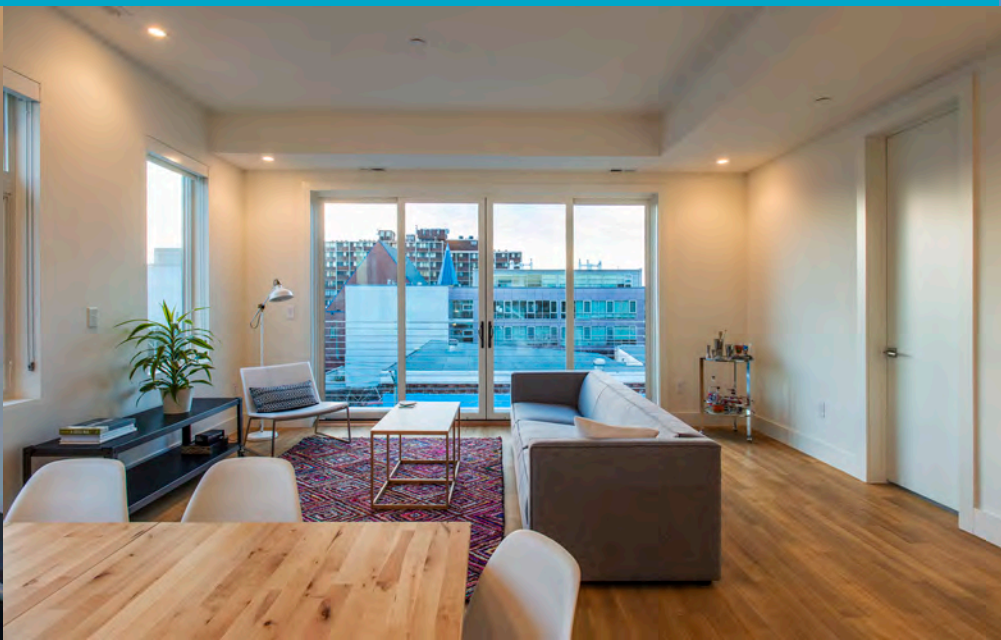
Ditto Residential

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small











# RiverHouse

Healdsburg, CA

CRAFT Development

**BUILDING**  
small







## OPTION A: MIXED PRODUCT COMMONS



PRICE RANGE	Cottages	\$550K - \$700k
	Townhomes	\$500K - \$650k
	One Bedroom Apts	\$1500 per month
	Efficiency Apts	\$1000 per month
PROCESS	GP Re-designation OF 125 Kennedy to HR CEQA RMP Rezoning of both parcels Subdivision process	
AFFORDABLE HOUSING	2 Rental Apartments	Very Low, Low
	1 For Sale Townhome	Moderate
RIVERBANK ENHANCEMENT	Invasive removal	
	Native landscape restoration	
	Education and interpretation	
	Stewardship program funded by HOA	
INFRASTRUCTURE	LID Pilot on Kennedy lane edge including curb separated sidewalk	
	Underground lot side utilities	

## OPTION B: THE COTTAGE COURT



PRICE RANGE	Cottages	\$650K - \$800k
	Townhomes	\$600K - \$700k
	ADU'S	\$200K
PROCESS	RMP Rezoning of both parcels CEQA Subdivision process	
AFFORDABLE HOUSING	TBD	
RIVERBANK ENHANCEMENT	Invasive removal (potential)	
	Native landscape installation	
INFRASTRUCTURE	LID Pilot on Kennedy lane edge including curb separated sidewalk	
	Underground lot side utilities	

## OPTION C: HOMES ON THE GREEN



PRICE RANGE	Single Family Homes	\$800-900k
PROCESS	Subdivision process	
AFFORDABLE HOUSING	PILO	
RIVERBANK ENHANCEMENT	None	
INFRASTRUCTURE	None	













RIVERHOUSE





# Small is not easy

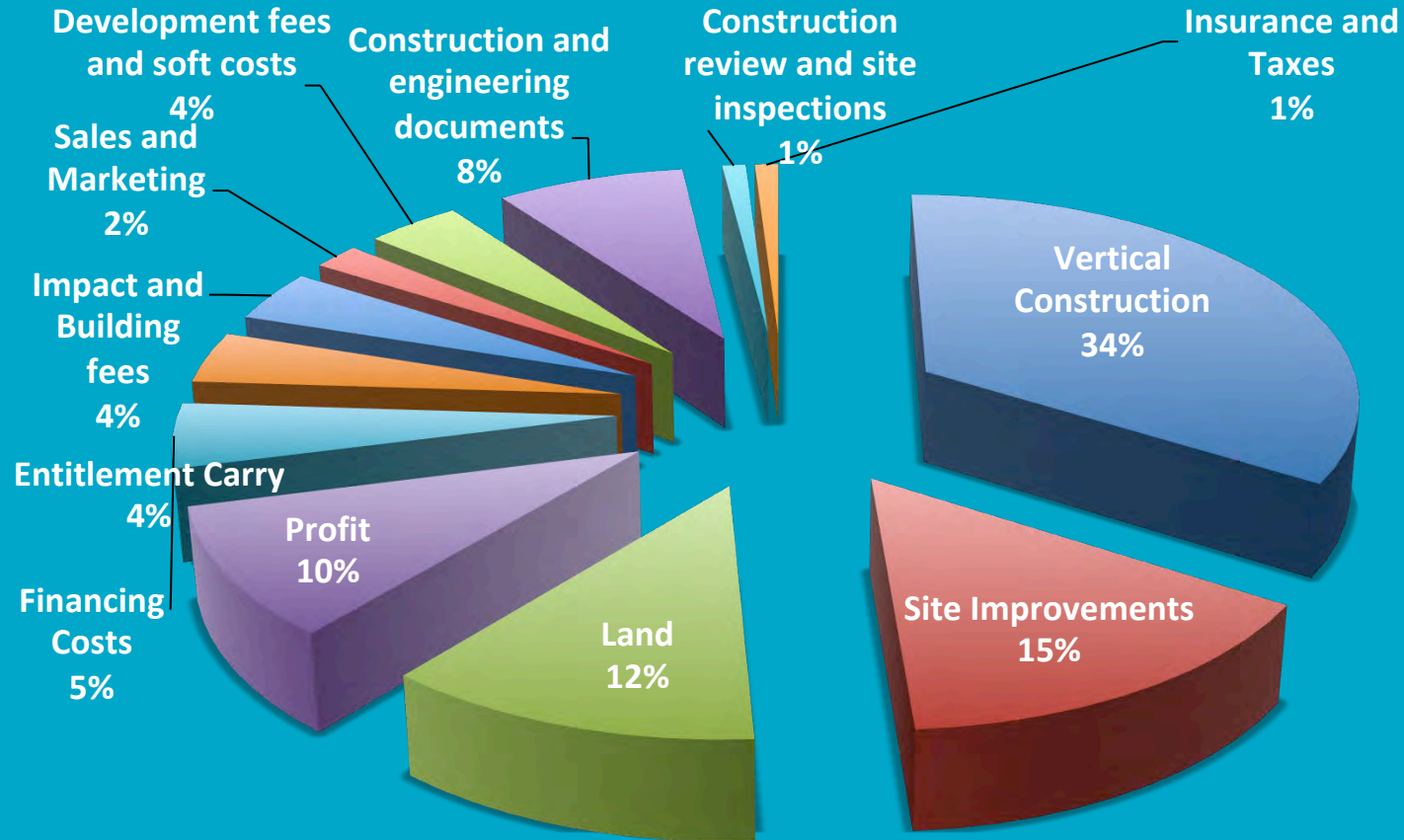


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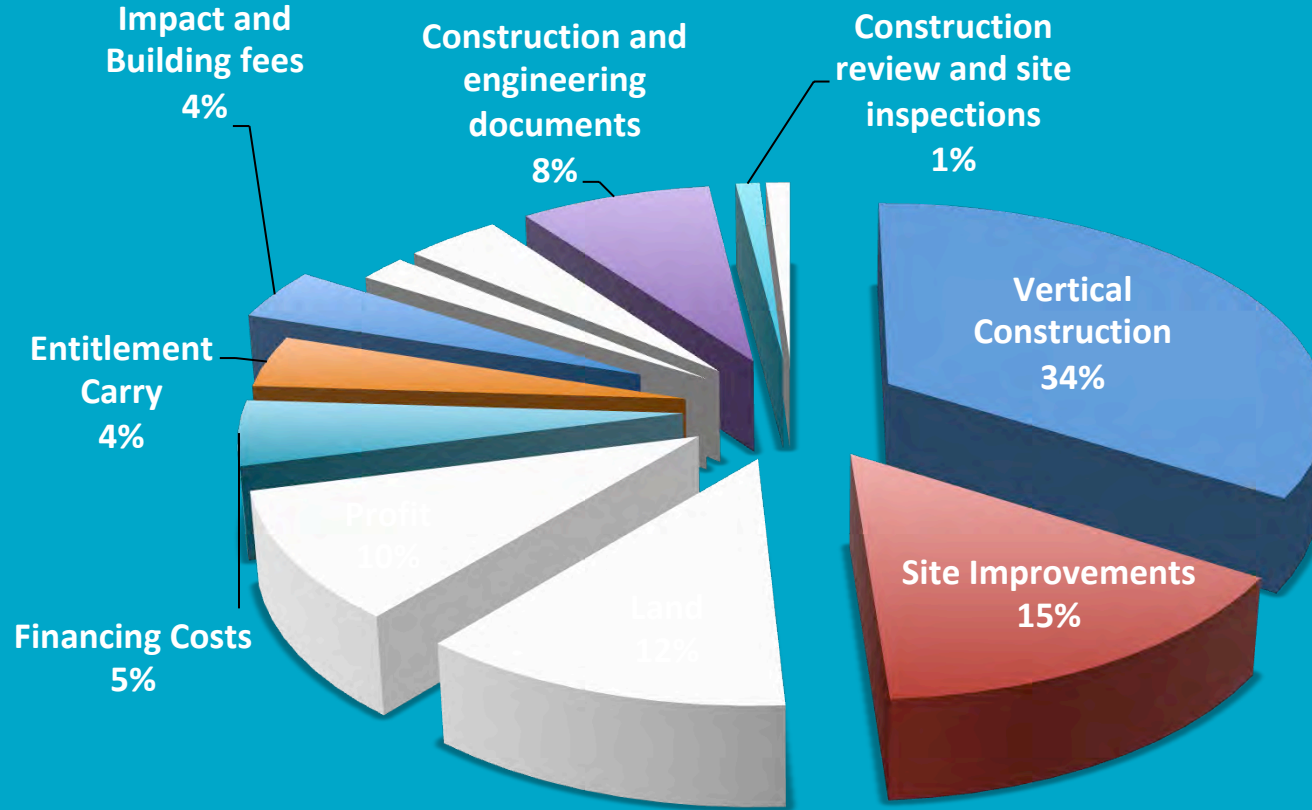
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# RiverHouse Cost Components



# RiverHouse Cost Components



**Policies had a direct or indirect impact on ~70% of factors influencing the final housing cost**



Search...



PHX At Your Service

PHX Pay Online

Map It

Find Public Records

PHX Newsroom

Translate

City of Phoenix > Planning and Development > Development > Office of Customer Advocacy



Planning & Zoning



Online Project Tools



Commercial & Multifamily



Residential



Inspections



Historic Preservation



Map

SHAPE PHX

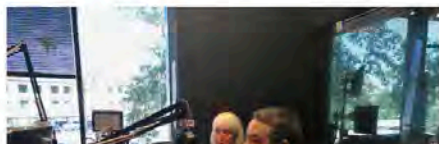
Topics A-Z



## Office of Customer Advocacy



Listen in as Economic Development Program Manager Sam McAllen and Historic Preservation Officer Michelle Dodds speak with Silent Witness on this **Adaptive Reuse** about Adaptive Reuse and how it impacts our communities.



The Office of Customer Advocacy (OCA) can help you understand the development requirements for your project. Customers considering the renovation of an existing building for commercial purposes are encouraged to contact this office before beginning the building permit process.

### OCA Projects:

- Remodel of existing commercial buildings
- **Adaptive reuse** of existing buildings for new business purposes
- Conversion of residences into business offices
- Minor additions to existing commercial buildings



# LEAN URBANISM

MAKING SMALL POSSIBLE

- reducing the resources required for compliance
- providing ways to work around regulatory processes that disproportionately burden small actors
- make it possible for residents and business owners to participate



## Miami's Parking Deregulation Will Reduce Housing Costs



Scott Beyer Former Contributor

This article is more than 3 years old.

2014-07 Rendering SW Context.jpg

(A rendering of the two buildings under construction by Andrew Frey, owner of the development firm...)

One of the great thought experiments in modern urban planning is to consider just how much cheaper life would be if the government didn't enforce minimum parking requirements. Academics like UCLA professor Donald Shoup, for example, have noted that these mandates raise construction costs for housing, retail and office space, especially in dense cities, where building parking is both more expensive and less necessary. For this reason, several cities have deregulated at least certain aspects of their parking codes. Miami has done this for much of its new housing stock, and appears to be reaping the benefits through cheaper and more abundant units.

This began in 2010, when the city passed Miami 21, a form-based code that, among other things, waived minimum parking requirements for newly-constructed buildings downtown. According to an MIT study written four years later, this dramatically reduced construction costs and produced a boom in high-rise development, including several projects without parking facilities period. But the more crucial move may have occurred in October of 2015, when city commissioners passed an amendment exempting certain small developments outside downtown from parking requirements as well. Buildings would have to be under 10,000 square feet, within walking distance of intensive transit corridors, and away from single-family areas, where they might produce spillover traffic. Before then, such



Districts

Relief

Interim

Broker

Capital markets are focused on efficiency, not effectiveness nor impact.

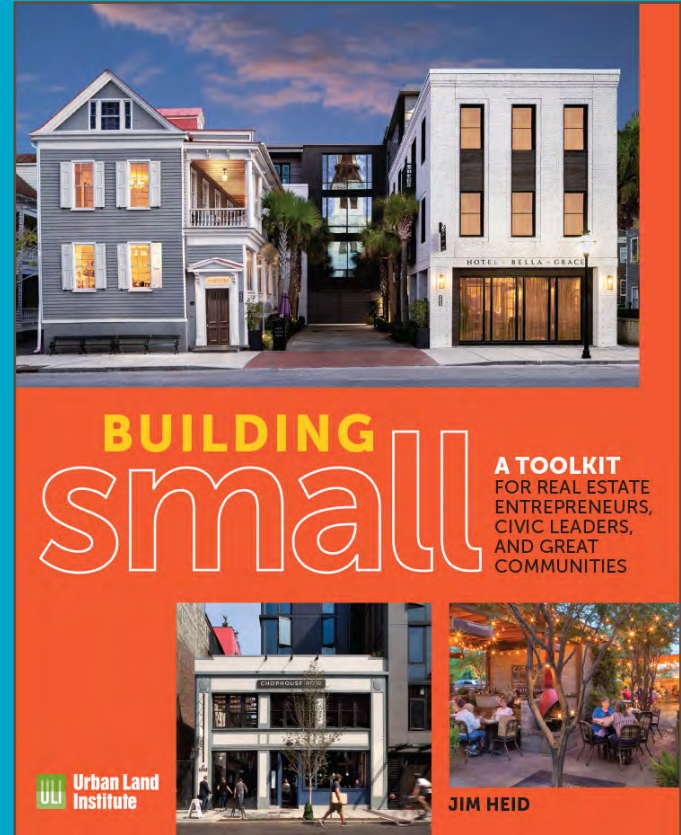




# **SMALL**

F+F Equity  
Tenant Equity  
Reg CF Equity  
Grants  
ED Funds  
SBA Loans  
Bank Loans

*‘..the raison d’etre for  
this book is to elevate  
the conversation  
about how and why we  
build.’*



# To Learn More

**THE BOOK** - ULI Bookstore – 30% off through 7/19

**THE FORUM** - Small Scale Forum #16 – 2-4 November Healdsburg, CA

**THE CONVERSATION** – **jim @ urbangreen.net**

**Instagram @ craftdev**

**linkedin @ jimheid**



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