

**REVIEW OF DEVELOPMENT REGULATIONS WITHIN PD-15 AND
THE NORTHWEST HIGHWAY AND PRESTON ROAD AREA PLAN**
19 January 2018

SUMMARY

The density limitation of 52.4 du/ac in PD-15 and height limitation of 4 stories in the Northwest Highway and Preston Road Area Plan are both significant obstacles for redevelopment of the Preston Place, Diplomat, Royal Orleans, and Diamond Head condominiums. Adherence to either of these limitations on development will make it difficult for the housing stock in this area to continue to be renewed and replaced per the vision in the Area Plan.

As part of the planning/visioning of the area, a detailed economic study on the feasibility of various redevelopment scenarios should be performed to help community members understand what level of development is economically viable in this area. The Northwest Highway and Preston Road Area Plan and the discussions of the vision for this area have not seemed to have this critical information to inform their recommendations.

ANALYSIS

Density regulations from PD-15

Two of the main reason why density regulations have historically been provided as part of zoning are:

- To ensure a compatible scale of development on adjacent parcels so that you do not get a high rise located next to a single-family home.
- To ensure that development does not push infrastructure (streets and utilities) beyond the capacity for which they have been built.

Within PD-15, I do not believe the existing density regulation of 52.4 du/ac should be used to limit future development for the reasons below.

- Within PD-15 there are already two high-rises: Preston Tower (29 stories) and the Athena (21 stories). Therefore, there should not be a concern about the compatible scale of development. The Residential Proximity Slope (1:3 or 18.4 degrees) from the single-family homes along Del Norte Lane would still be an effective regulation to limit the impact of taller new development on single-family homes. My estimation is that the proximity slope would limit development to approximately 11 stories at the northern edge of PD-15 and approximately 19 stories at the southern edge along Northwest Highway.
- Because Northwest Highway is a regional transportation corridor that serves a much larger area, the increased density in this area will have a negligible effect on the traffic on this major corridor. Placing density closer to this corridor also minimizes trips through the adjacent residential neighborhoods. A more detailed traffic analysis should be part of discussions of development scenarios.



- There is a disconnect between the Floor Area Ratio (FAR) and allowed density in the zoning.
 - The FAR in PD-15 is 4.0.
 - For a one-acre site, the maximum floor area would be 4 acres or 174,240 sf.
 - For a one-acre site, the allowed density of 52.4 in PD-15 would limit development to 52 units.
 - This would result in an average unit size of 2,848 sf (assuming 85% net/gross sf efficiency).
 - Typical unit sizes in the Athena are 1,543 sf. and 1,899 sf. The Laurel (larger size rental units for this market) has an average unit size of approximately 1400 sf. Typical Dallas rental market is 825 sf. to 1,000 sf.
 - For typical Dallas market rental units, the density is limiting the development to approximately one third of the allowed FAR. For the larger Laurel units, the density limits development to approximately one half of the allowed FAR.
- Regulating density for multifamily development cannot address concerns about building form and compatibility with surrounding properties because it does not take unit size into consideration.
 - The floor area of a building with 2000 sf. units will be twice as large as a building with 1000 sf. units.
- Studies have shown that density restrictions can lead to economic segregation. (See Michael C. Lens & Paavo Monkkonen’s study “Do Strict Land Use Regulations Make Metropolitan Areas More Segregated by Income?”).
 - Larger units are promoted because they allow for a larger building which generates more rental income (\$/sf)
 - Smaller units are discouraged because they result in a smaller building that generates less rental income (\$/sf)
 - Lack of smaller units prices out lower income individuals.

Height limitations imposed by the Northwest Highway and Preston Road Area Plan

PD-15 is located within Zone 4 of the Northwest Highway and Preston Road Area Plan. The Community Vision statements of the Northwest Highway and Preston Road Area Plan include:

“Multi-family residential developments would be encouraged in Preston Center (Zone 1) in addition to the current concentration of condominiums and apartments along Northwest Highway, between Preston and Hillcrest Roads (Zone 4). While a significant portion of the current multi-family in Zone 4 has already been redeveloped, this renewal and replacement of housing stock is visualized to continue, with increased density but with **building heights not exceeding four stories in Zone 4.**” (Page 11)

The height limitation of 4 stories is a significant reduction from the unlimited allowed height of PD-15 and the underlying MF-3 zoning and the 11-19 stories that would be allowed based on the Residential Proximity Slope to the homes on Del Norte Lane.

The height limitation of 4 stories is also a significant reduction in the allowed FAR.

- With a 60% lot coverage and a four-story height limit, the maximum FAR is 2.4 (4 stories x .6 lot coverage = 2.4).
- This represents a 40% reduction of the current allowed FAR of 4.0.

Parking Requirements

The parking ratio required in PD-15 is 1.22 spaces per unit. In this area (more auto oriented, less walkable to surrounding services, Walk Score of 52). I would assume a more typical market driven parking ratio would be 1.5 spaces per unit. The larger the unit size, the higher the parking ratio should be. This becomes a factor in cost because I think most of the parking required for redevelopment of the properties will be structured parking. Current estimates for structured parking are \$15,000 per space above ground and \$22,000 per space for the first level of below ground parking. Each additional level below ground would increase costs by \$10,000 per space.

Typical MF-3 building types

The building type/form in MF-3 development is generally determined by a combination of FAR (Floor Area Ratio), lot coverage, lot size, and the building code. In simplified terms:

- FAR x Lot Size = The total amount of floor area that can be built.
- Lot Coverage x Lot Size = How large the building footprint can be.
- Building Code = A little more complex, but there are certain triggers that require different types of building construction types (wood vs concrete/steel) which are more expensive. In MF-3 (base zoning for PD-15) and the current building code the pertinent triggers are:
 - Protected wood structures can be built up to 5 stories.
 - The newly adopted building code now allows up to 7 stories / 85' for 5 stories of protected wood structure on top of 2 stories of concrete podium construction.
 - Construction over 85' basically requires concrete/steel construction and triggers a jump to a high-rise building. Once the more expensive construction type is triggered, the building will want to have as many floors as possible to max out the FAR and improve the building efficiency. There is a range (8-12 stories) where it is challenging to get this type of construction to be economically viable.
- Lot Size. The larger the lot, the more FAR and Lot Coverage that can be built.
 - To build a high-rise, the lot must be large enough lot to allow for an efficient footprint that is tall enough to be economically viable for steel/concrete construction. A 16-story building that sits on 25% of the site only has an FAR of 4. (16 x .25 = 4).
 - The larger the lot, the easier it will be to accommodate parking. With the FAR, Density, and land costs in PD-15, all parking on any new development would likely be structured. A larger lot may require less below-grade parking. Current estimates for structured parking are \$15,000 per space above ground and \$22,000 per space for the first level of below ground parking. Each additional level below ground would increase costs by \$10,000 per space.

Typical development in MF-3 (base zoning for PD-15)

The following are what I would see as typical redevelopment projects within the MF-3 zoning district on lots with existing multifamily units. This is based on my firm's experience in working with local developers and my experience as an Oak Lawn Committee Member.

The analysis below is for rental developments only. The properties in PD-15 are unlikely to redevelop as condominiums. Condo developments are a much higher risk for developers and project team consultants. There is a much smaller group of developers who are willing to accept the risks to develop condos and a small group of consultants willing to pay the additional insurance required to work on them.

- Anticipated rents of less than ~\$2.80/sf
 - Under the new building code, I would expect lots in areas with rents under ~\$2.80/sf to be redeveloped as a 7-story building utilizing a 2-story concrete parking structure that is partially wrapped with 5-stories of protected wood construction above.
 - This 7-story product would deliver approximately 100-125 du/ac
 - These anticipated rents are not high enough to cover the additional costs of the concrete/steel construction required for a high-rise building.
 - Smaller lots would likely need to have a portion of the parking below grade. The below grade parking would increase costs and push them towards trying to maximize the FAR as much as possible or do slightly smaller units that would allow them to provide a slightly lower number of spaces per unit (but still more than the 1.22 required by code).
- Anticipated rents of more than ~\$2.80/sf
 - If the rents are high enough, the lot is large enough (generates enough floor area with the FAR), and the allowed height is tall enough (not limited too much by the Residential Proximity Slope); I would expect the lot to be redeveloped as a high-rise.
 - A high-rise project would deliver approximately 250 du/acre.
 - A high-rise project may receive opposition from neighbors. Towers closer to major transportation routes and existing towers receive less opposition than towers closer to existing single-family homes and smaller multifamily projects.
 - If the lot was too small to generate enough floor area with the allowed FAR, or the allowed height was not tall enough, the lot would likely be redeveloped as a 7-story building utilizing a 2-story concrete parking structure that is partially wrapped with 5-stories of protected wood construction above instead of a high-rise.
 - The 7-story project would deliver approximately 100-125 du/acre

BACK OF ENVELOPE QUICK PROFORMA COMPARISON

Based on our work on some similar projects and some information provided from developers we have worked with in the area, I did a quick back of envelope proforma for a theoretical 2-acre site comparing:

- 4-story development
- 7-story development (5/2)
- High-rise development

Proforma Assumptions

1100 sf. average unit size – My professional opinion is that this is larger than the market will support. The 1100 sf. used is an average between what I see would be at the highest end of the range (the Laurel at 1400 sf.) and what I think would be at the lowest end of the range (800 sf. a common target for infill units along a major commercial corridor and near a retail center like Preston Center).

\$2.50/sf rents – Approximately what the Laurel is asking based on an average of rental prices available on-line. This is considerably higher than current rents today in PD-15. This was kept consistent across all three projects; however, it is likely that the high-rise project would be have a higher rent and the 4-story project would have a lower rent.

50% of the units will pay \$100 premium on their rent for some type of premium on their rent for reserved parking, unit upgrades, storage, etc. This was kept consistent across all three projects; however, it will be easier to get this on the high-rise project than the 4-story project

6% vacancy rate

Calculated expenses included insurance, taxes, management fees, annual operating expenses and annual reserve. These were calculated at a standard fee per unit or % of annual revenue consistently across all three projects.

Hard costs were based from data from similar projects in the DFW and are shown as \$/nsf including above grade structured parking at 1.5 per unit.

- \$168/sf 4-story
- \$173/sf 7-story
- \$221/sf high-rise (the jump is due to using concrete/steel construction)

Soft costs were a consistent 18% across all projects.

6% project yield on cost (project cost / net operating income) – This is generally what developers use to determine whether a rental project is feasible. 6% may be lower than some developers would consider in this market, but is used consistently across all three projects.

The cost of the land was the variable I solved for based on the above assumptions. This number translates to how much a developer would be able to pay an existing property owner and have an economically viable project.

Proforma Results

Because there are properties in the project area that are in negotiations with developers who may be using slightly different numbers than my assumptions, I am summarizing the results based on a % as they relate to each other rather than providing the specific cost per sf of land generated by my assumptions.

The 7-story project supported a land cost that was 57% higher than the 4-story.

Based on the assessed values of the properties shown in DCAD, the 7-story project seemed like it would be economically viable for both the developer and existing property owners.

Because the 4-story project supported a lower land cost (64% of the 7-story) it did not seem to be an economically viable development scenario for the existing property owners.

For the 4-story project to be economically viable, property values for the existing units would need to decrease and/or rents for new product in the area would need to increase.

I was unable to get a high-rise project to match the land cost generated by the 7-story project without a rental increase of \$0.45/sf. This is due to the increased costs of concrete/steel construction required for a high-rise. It is reasonable that a high-rise will have higher rents, but that may be more of a jump than the market can currently support.



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