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# Development Feasibility Analysis

## Missoula Midtown Master Plan

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March 2023

Prepared for: Missoula Midtown Association

Final Report

**ECONorthwest**  
ECONOMICS • FINANCE • PLANNING

# Overview

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## Why conduct pro forma analysis of these development prototypes?

Midtown Missoula has a quickly evolving real estate market related to its changing local demographic and employment conditions and broad economic trends. As a large, centrally located part of Missoula, the area has rising demand for housing that is affordable to range of income levels, public amenities, and space for a variety of commercial activities. Combined with an older building stock, low rents, low vacancies, and large underdeveloped parcels, this means that development pressures have been steadily rising in Midtown.

As a part of refining alternative concepts for the Midtown Master Plan, ECONorthwest tested the development feasibility of seven different site prototypes with variable factors that will likely influence future development in Midtown. The prototypes represent a range of development types that may occur in Midtown, including residential, mixed-use, and commercial buildings.

Using financial pro forma, we evaluated whether current market conditions would make these prototypes viable for developers to pursue these types of development in Midtown and identify possible regulatory changes that currently prohibit such developments to be built today. What the market is able to deliver is a critical precursor to shaping the future of Midtown and creating a Midtown Master Plan that aligns with market realities.

## How did we define the prototypes?

The seven prototypes included in this analysis reflect development types that we heard frequently mentioned during community visioning and workshop activities in the Midtown Master Plan process.

Most homes in Midtown today are single detached units, with some moderate density interspersed. However, residents indicated that a broader range of housing types such as townhomes, middle housing, and multifamily buildings could meet the needs of more households than current options available. Commercial vacancies are also generally low in Midtown, with more space needed in Midtown for businesses ranging from small local startups to anchor destinations. The development prototypes evaluated in this analysis include:

- Townhomes
- Fourplex
- Sixplex
- 3-Story Multifamily
- 4-Story Mixed Use
- 6-Story Multifamily
- Food Hall/Makerspace

In some cases, the prototypes analyzed do not completely align with what is allowed under current zoning regulations in Midtown Missoula. However, they are also not far departures from existing development standards. The prototypes presented here reflect best practices that could be implemented with upcoming changes to the city's code update, but still represent the desired character of Midtown.

# Summary of Feasibility Analysis

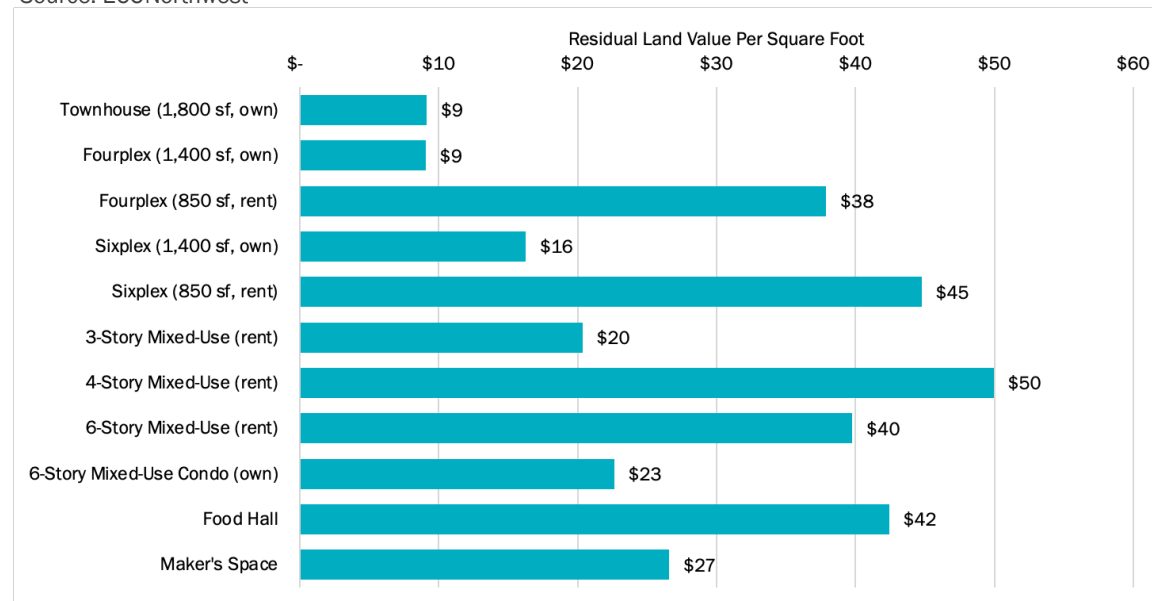
Our analysis shows that **most of the prototypes could be financially feasible to develop in Midtown based on best practices that align with desired types of development that community members identified during the Master Plan engagement process.**

Although the assumptions used for our model do not completely align with the current code, they reflect industry best practices for missing middle housing, mixed-use multifamily development, and creative commercial redevelopment.

Exhibit 1 shows the results of pro forma testing for each prototype, sometimes including slightly different site configurations for ownership or rental products. In general, larger multifamily development types offered as rental units tend to have a higher RLV per square foot compared with smaller scale buildings or middle housing types. The four-story mixed-use multifamily prototype shows the highest RLV of any development type, likely performing better than the three-story building with fewer units and the six-story building with podium parking. While middle housing and creative commercial types had moderate RLV, they were typically lower per square foot than most of the multifamily types but still provided sufficient return on costs to be feasible.

## Exhibit 1. Summary of Residual Land Value Per Square Foot by Prototype

Source: ECONorthwest



### What is Residual Land Value?

Residual Land Value (RLV) is a value that shows what a developer would be able to pay for land by finding the remainder between total development costs and total value (rents, sales revenues, etc.). A higher RLV per square foot is generally an indicator that a project will be financially feasible. See 'Pro Forma Modeling' section below for details.

# Key Takeaways

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Our pro forma analysis shows that most types of development that we tested could be financially feasible in Midtown. However, not all of these types are functionally possible in the area today, with existing challenges related to regulatory barriers, land use review processes, and other considerations.

Each prototype would require some level of regulatory changes to be built as they are shown in this analysis and may also be contingent on additional factors like current developer capacity or land prices. **Critical changes that could enable these development types to occur in Midtown include:**

## Zoning Requirements

**Use allowances for middle housing types in more residential zones.** In Midtown today, all residential and commercial zones currently allow for townhomes outright (although some barriers for townhome development are noted in 'Land Use Processes'). Other middle housing like fourplexes and sixplexes would count as multifamily dwellings and are not permitted in some of Midtown's residential zones – including RT2.7, R5.4, or R8 zones which comprise a large share of the Southgate Triangle neighborhood and the core area around the intersection of Brooks, South, and Russell.

**Reduced parking requirements and allowances for shared parking solutions.** Our prototypes assume several parking conditions which are not currently covered in the city's code, including shared parking scenarios for mixed use buildings, use of on-street inventory, and lower parking ratios across the board than the code currently specifies. We used an industry best practice of between 0.7-1.0 spaces per dwelling unit depending on the development type, while assuming that the market may still sometimes choose to over-supply parking to meet demand from residents.<sup>1</sup> Existing code requirements would require at least 1.0 spaces for small units in multifamily buildings and up to 2.0 spaces for townhomes. Overall, this would take approximately a 50 percent reduction to match the parking configurations shown in the prototypes.

**Minimizing the impact of adjacent site requirements.** Since the prototypes we tested are not site-specific, our analysis does not account for regulations that would apply for residential development adjacent to lower density parcels. In the current code, these regulations can alter standards for setbacks and maximum building height if a parcel fronts on the same street as a lower density lot. The feasibility of any prototype could change if these more restrictive standards were to apply, by requiring developers to purchase a larger parcel than

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<sup>1</sup> The Design Excellence Overlay currently allows a lower parking ratio in some areas of Midtown, but only in areas that are within designated corridors and nodes.

anticipated or limit either the size or number of units that can fit on a parcel.

**Reduced requirements for commercial square footage in mixed-use buildings.** Our prototypes assume a different ratio of commercial space than what is currently required for vertical mixed-use buildings. Currently, the zoning code would require that a vertical mixed-use building of the scale shown in our pro forma would need nonresidential uses to account for twenty percent of the parcel area or more, as the parcels modeled have greater than 50 feet of street frontage.<sup>2</sup> Even for a parcel with a smaller frontage, a mixed-use building would be required to have 800 square feet or 25 percent of the parcel area (whichever is greater), dedicated to nonresidential use. These requirements could significantly alter the feasibility of mixed-use developments and prohibit small-scale neighborhood-serving retail services.

**Relaxed density requirements.** Density requirements can limit development of middle housing types and multifamily buildings even in areas where they are permitted outright and match land use types in the City's Growth Policy. Our prototypes show industry best practices that apply for the types of townhomes, fourplexes, sixplexes, and mixed-use multifamily buildings that would be relevant in Midtown based on conversations with developers and community members. Unit sizes in our prototypes range from 850 to 1,800 square feet, and in general, they would require changes to

current required minimum parcel area per unit to fit on the parcels included in our model.

## Land Use Processes

**Shortened review timelines.** Long timelines that some developers have described for land use, design, and other city review processes can reduce financial feasibility. Waiting for weeks or months for approvals can stall projects and add costs beyond what we are accounting for in our pro forma models. In general, this includes additional costs for developer overhead and labor, as well as pushing out the timeline for developers to receive sales revenue or rental income.

**Flexibility for phased development.** The city's building permit process is not designed to accommodate larger projects which often require multiple phases over the course of several years. Current procedure requires that developments are completed entirely on the same permit, which can preclude larger scale development like the six-story podium prototype included in this analysis.

**Eliminating discretionary criteria.** Discretionary criteria in land use and zoning can make it difficult for developers to accurately anticipate costs and timelines. The most often cited example of discretionary criteria by developers is the recently implemented Design Excellence Overlay, which applies to parcels along many of Midtown's major corridors, including South Avenue, Brooks Street, Russell Street, Reserve Street, and Higgins Avenue.

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<sup>2</sup> Missoula Municipal Code Section 20.100.010.

Design Excellence includes incentives intended to encourage projects that align with its goals, including options for on-street parking substitution, off-street parking reduction, landscaping reduction, no density restrictions on vertical mixed-use buildings, and activity area reduction. There are also mandatory requirements which vary between the different typologies of nodes and corridors in the program, related to materials, landscaping, façade design, and more. Following guidelines to receive incentives or meet requirements can be challenging without clear communication and standards.

## Other Factors

**Increased developer capacity.** Since these types of development included in these prototypes can be difficult to build under current standards, there has not been as much opportunity for local developers to cultivate familiarity with middle housing and mixed-use multifamily types. In addition to regulatory barriers, there is also a subsequent lack of experience with these project types for those working in or near Midtown.

**Clarity on land costs.** Overall, it can be difficult to know the estimated cost of land for infill sites in Missoula. Access to assessor data and real estate reporting is limited in Montana, and developers might not always have a good understanding of land costs for small or irregularly shaped sites. Without a clear understanding of approximate costs, developers may choose not to pursue development of these parcels, particularly local developers who may not have the same ability to absorb risk as large national firms.

# Pro Forma Modelling

## What is included in a pro forma?

In order to evaluate the financial viability of the proposed development prototypes, we used a range of inputs necessary for financial pro forma modelling (displayed on the right).

ECONorthwest and SERA Architects developed a **building program** for each prototype using typical existing parcel dimensions and typologies in Midtown as well as industry best practices for each development type. These inputs sometimes deviate intentionally from current zoning allowances to show how the City might think about updating some of its standards in the future. For example, parking ratios for middle housing and mixed-use buildings are reduced in our model compared with existing requirements.

Working with local developers, architects, and property owners, we defined and vetted what expected **development costs** would be for properties in this area. This includes a combination of hard cost and soft costs, both of which experience changes over time and by geographic area. Local trends discussed with stakeholders also informed our assumptions for **operating revenue**, including sale prices, rents, and operating costs for different building types.

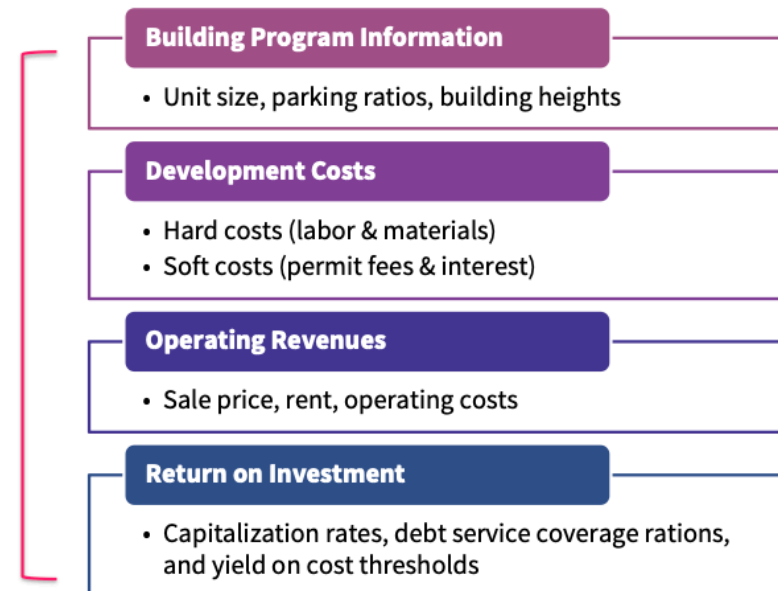
**Return on Investment (ROI)** is a key performance metric used to evaluate investments such as real estate developments. It is calculated as a percentage of gains on an initial investment, with a higher rate typically creating more incentive to pursue

a project. If the estimated rate is below an investor's target, it makes the development less likely to occur.

**Residual Land Value (RLV)** is a value that estimates what a developer would be able to pay for land given development inputs. This is critical for determining whether a project will be feasible, or if it would fail to cover the costs of development and operations.

## Exhibit 2. Pro Forma Model Inputs

Source: ECONorthwest





# Performance Metrics

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## Why do we use performance metrics?

While planning for the future of Midtown, it is critical to understand economic realities that might exist for certain types of development identified during the planning process. Pro forma work can help decision-makers understand what is currently possible to begin identifying what levers are available to increase feasibility of development types desired by the community.

Performance metrics like Residual Land Value (RLV), and Return on Investment (ROI) are important for understanding whether new development is likely to occur, depending on the type of new construction and financing structure.

## What if a project does not perform well with these metrics?

Some types of projects are less likely to meet minimum expectations related to these metrics for market rate investment. For example, affordable housing that offers below-market rents is typically unable to provide a sufficient return on investments. However, affordable housing is also a critical need in many communities. Typically, these projects are achieved by providing subsidies from local, state, or federal funding sources or mission-based foundations. If projects do not perform well with these metrics, it does not necessarily mean that they cannot happen, but that they will require some kind of additional financial support. Regulatory

changes can also impact development feasibility and have implications for what projects are able to be built.

The Low-Income Housing Tax Credit (LIHTC) program offered through the US Department of Housing and Urban Development is a primary funding source for many affordable housing projects. The program comes with strict income limits for affordable units and has become an increasingly competitive program for affordable housing. Many states and local governments also offer different types of programs and funding opportunities for affordable housing, as well as private philanthropic foundations and nonprofit organizations.

Development and use standards in local zoning codes can also impact how developments perform with these metrics. For example, standards like lot coverage, parking requirements, and setbacks can make it necessary for developers to purchase a larger parcel relative to the number of units, driving up land costs. Policy changes at the city level can help to improve the feasibility of different development types like affordable housing and mixed-use buildings by allowing greater flexibility in the code.



## Residual Land Value

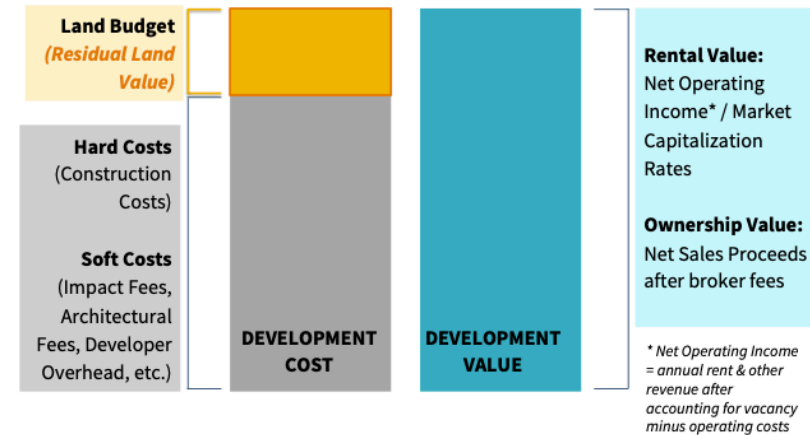
**Residual Land Value (RLV)** is a strong indicator metric of the relative likelihood that development will occur for both rental and ownership products: it demonstrates whether a developer will be able to purchase land and if there is a market incentive for investment. RLV is calculated as the remainder between a development's value and the cost it takes for development as shown in Exhibit 3.

The value of a development project is projected somewhat differently for rental or ownership products. For rental properties, the value is reflected in its **Net Operating Income (NOI)**, which is the property's annual rental income (from residential or commercial tenants), and any additional revenue after accounting for vacancy rates and operating costs (such as property management and maintenance). For ownership products, the value is the **Net Sales Proceeds** after broker fees.

**Development costs** are a combination of hard costs (like construction and labor for new construction) and soft costs (including impact fees, design, overhead expenses, and more). If the value of a development is higher than the total costs, this remainder is the RLV.

### Exhibit 3. Feasible Development Example

Source: ECONorthwest



Higher RLV relative to existing land prices indicates that a developer will be able to purchase land, and that a project is likely to be successful.



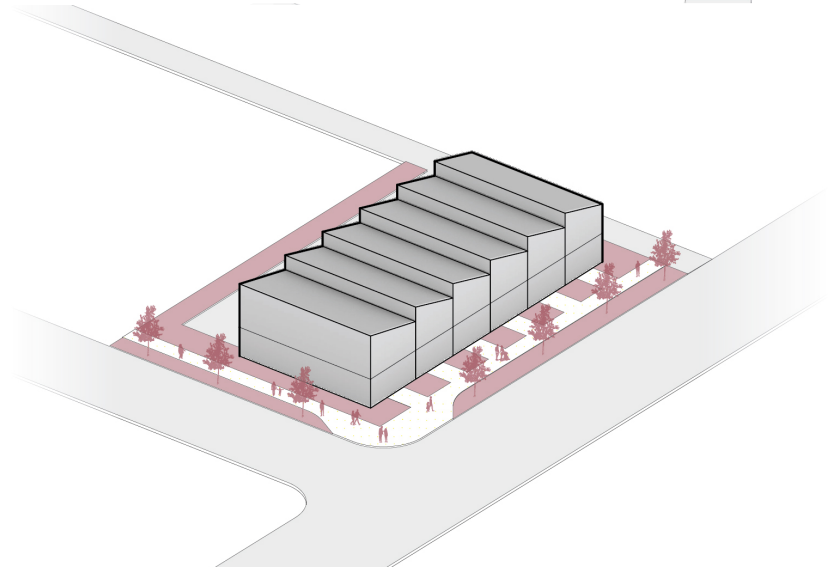
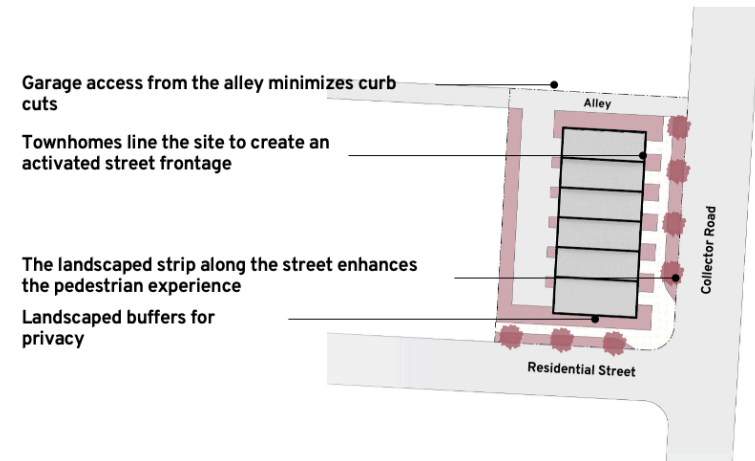
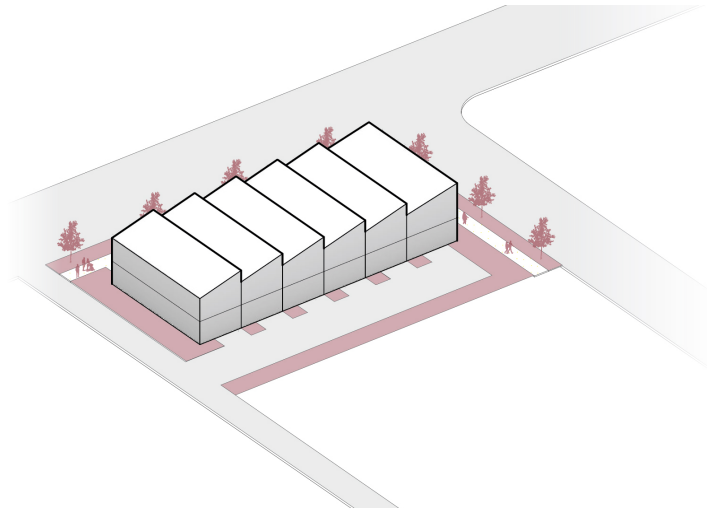
If a project has lower RLV relative to land prices, it may be difficult to secure financing for the project. Likewise, if the development's value is lower than costs, it is not financially feasible without some form of subsidies. To pursue these types of projects with low or no RLV, developers may be able to identify sources of gap financing targeted towards projects with community benefits, like affordable housing.

# Prototype 1: Townhomes

This site transforms a parcel with a single-family home into Six Townhouses. The densification of this site creates a micro-community. Each townhome has an 18' x 50' footprint with 1,800 sf over two levels. This fills in the site and creates an urban edge to an anchor site at the end of the residential block while connecting to its context. Each home has a private garage with access from the alley to reduce curb cuts along the street. This enhances the pedestrian experience by tucking car access to the rear of the site.

## Prototype 1: Townhomes (6 Units)

New Construction		Parking	
Residential Area (SF)	10,800	Residential Ratio	1.0
Commercial Area (SF)	0	Commercial Ratio	N/A
Amenity Area/ BOH	0	Total Spaces	6
Gross Floor Area	10,800		

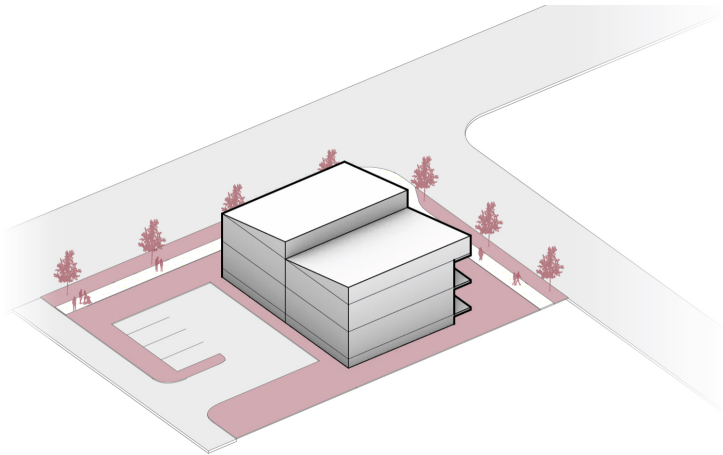


## Prototype 2: Fourplex

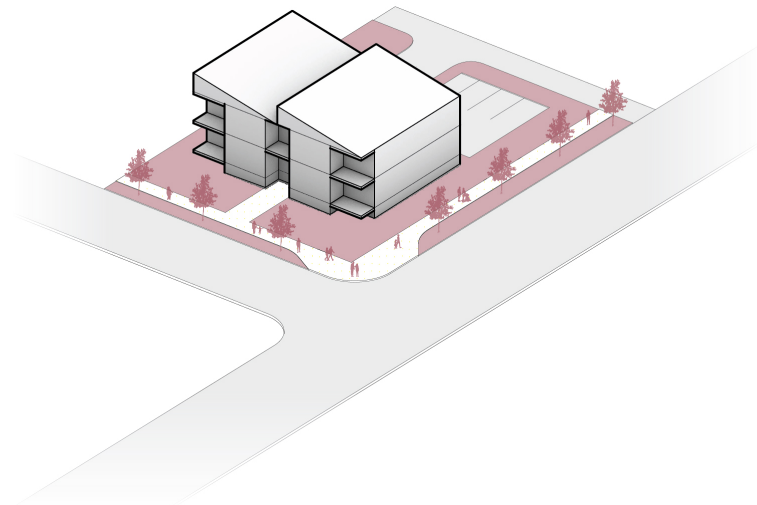
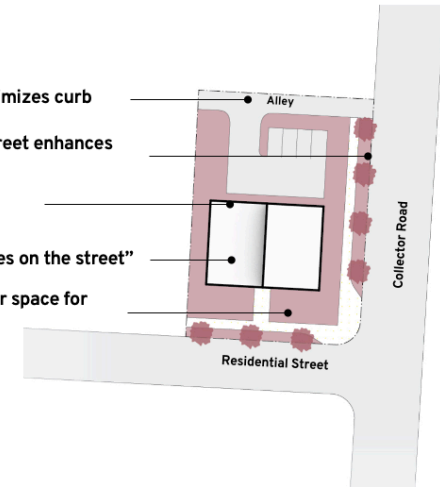
This site transforms a parcel with a single-family home into a fourplex multifamily building. Each unit is 850 or 1,400 sf (depending on tenure type) with a private balcony overlooking the street. Each apartment has a dedicated parking space with access from the alley to minimize curb cuts along the streetscape. This model anchors the corner of a residential street while integrating into the lower density context.

**Prototype 2: Fourplex (4 Units)\***

New Construction		Parking	
Residential Area (SF)	3,789 (rent) 6,240 (own)	Residential Ratio	1.0
Commercial Area (SF)	0	Commercial Ratio	N/A
Amenity Area/BOH	0	Total Spaces	4
Gross Floor Area	3,789 (rent) 6,240 (own)		



- Garage access from the alley minimizes curb cuts
- The landscaped strip along the street enhances the pedestrian experience
- The apartments face the street adding activity to the urban environment
- Balconies on the front create "eyes on the street"
- Landscaped buffers offers outdoor space for the residents as well as privacy



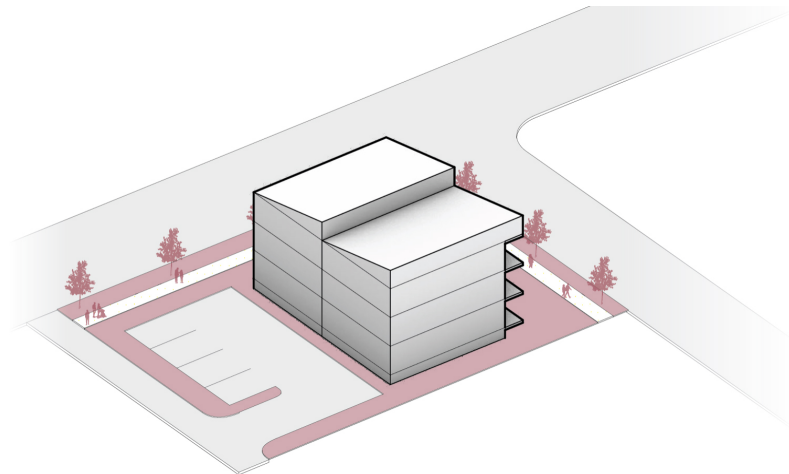
\*Note: We tested a slightly different site configuration with larger lot and unit sizes for an ownership fourplex compared with a rental product, assuming that households tend to select for features differently depending on tenure type.

## Prototype 3: Sixplex

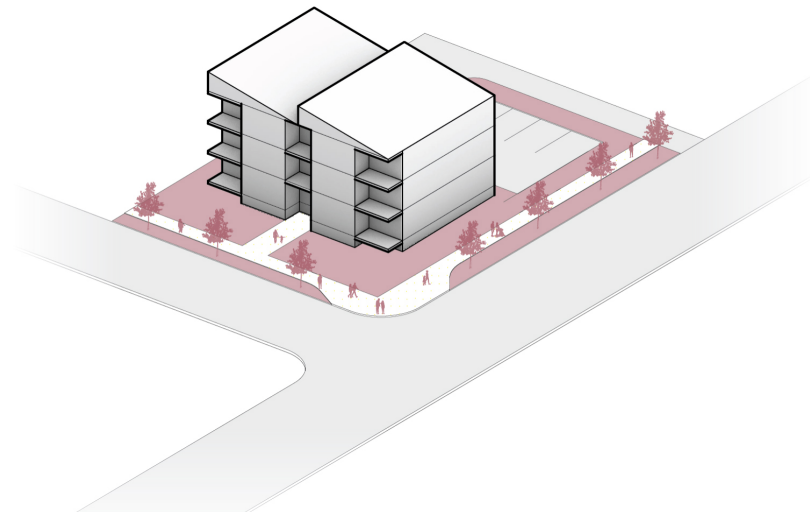
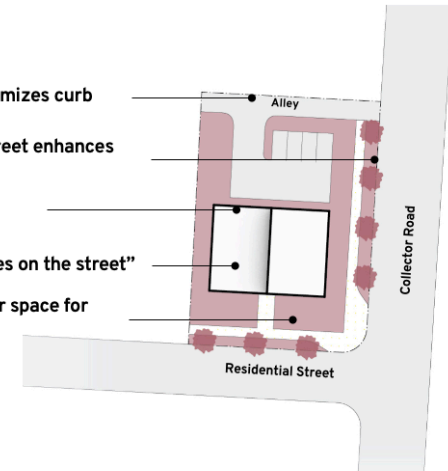
This site transforms a parcel with a single-family home into a sixplex multifamily building, similar to the fourplex with an additional two units. Each unit is 850 or 1,400 sf (depending on tenure type) with a private balcony overlooking the street. Each apartment has a dedicated parking space with access from the alley to minimize curb cuts along the streetscape. This model anchors the corner of a residential street while integrating into the lower density context.

**Prototype 3: Sixplex (6 Units)\***

New Construction		Parking	
Residential Area (SF)	5,570 (rent) 9,360 (own)	Residential Ratio	1.0
Commercial Area (SF)	0	Commercial Ratio	N/A
Amenity Area/BOH	0	Total Spaces	6
Gross Floor Area	5,570 (rent) 9,360 (own)		



- Garage access from the alley minimizes curb cuts
- The landscaped strip along the street enhances the pedestrian experience
- The apartments face the street adding activity to the urban environment
- Balconies on the front create "eyes on the street"
- Landscaped buffers offers outdoor space for the residents as well as privacy



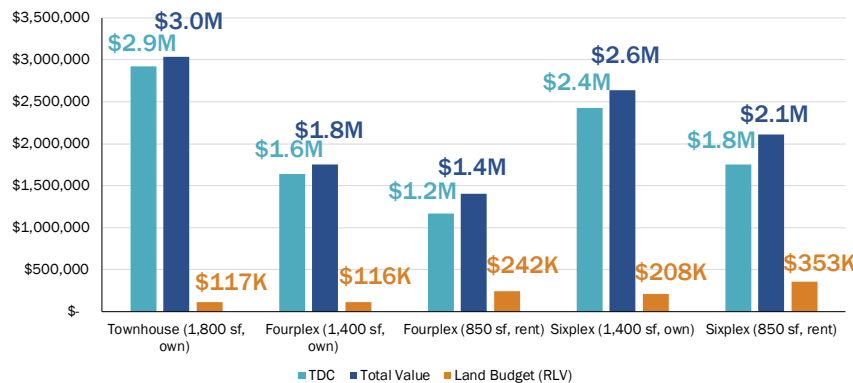
\*Note: We tested a slightly different site configuration with larger lot and unit sizes for an ownership sixplex compared with a rental product, assuming that households tend to select for features differently depending on tenure type.

# Prototype Findings: Missing Middle Housing

## Pro Forma Analysis

### Exhibit 4. Middle Housing Pro Forma Results

Source: ECONorthwest



## Key Findings

**The chart above generally indicates that middle housing infill development types (including townhomes, fourplexes, and sixplexes) are feasible under current market conditions for both rental and for-sale housing in Midtown.**

Based on our analysis, residual land value (RLV) exists for missing middle housing prototypes ranging from \$9 to \$35 per square foot. RLV is generally higher for for-sale product types than rental housing mostly due to the higher sale prices that could be achieved on the market.

Several reasons exist for why these types of missing middle development may not yet be occurring in Midtown, including regulatory and procedural land use challenges. Current barriers that may be contributing to less frequent development of middle housing include:

**Use Allowances.** In Midtown, all residential and commercial zones currently allow for at least a lot line house or two-unit townhome to be built outright. However, fourplex and sixplex types would currently count as a multifamily house or multidwelling building, which are not permitted in Midtown's RT2.7, R5.4, or R8 zones. These zones (particularly R5.4) comprise a large share of the Southgate Triangle neighborhood and the core area of the Master Plan around Brooks, South, and Russell.

**Density Limits.** Density requirements can limit development of middle housing types even in areas where they are permitted outright as multifamily dwellings. Our prototypes show industry best practices that apply for the types of townhomes, fourplexes, and sixplexes that would be relevant in Midtown based on conversations with developers and community members. In general, they would require changes to current required minimum parcel area per unit in some residential zones that cover large portions of Midtown, including the R5.4 and R8 zones, which currently require 5,400 and 8,000 square feet of parcel area per unit respectively.

**Parking Ratios.** Current parking regulations for townhomes of this size would also likely require a greater parking ratio than modeled in this prototype, requiring 2 off-street spaces per unit. Fourplexes and sixplexes would likely be required to include 1.5 spaces per unit unless they met affordable housing criteria.<sup>3</sup> Our townhome, fourplex, and sixplex prototypes all assume a reduced amount of parking needed at only 1 space per unit.

**Townhome Exemption Development (TED).** TED standards in the city's zoning code would hypothetically enable the type of small-scale townhome development shown in Prototype 1 in most of Midtown, including all residential as well as commercial B and C zones.<sup>4</sup> However, the City and developers have identified a number of procedural issues with current TED processes in the 2020 Subdivision and TED Regulations Recommendations

Report, including inconsistencies in review, lack of clarity in code interpretations, and lack of communication materials.<sup>5</sup> The City has been working to address these issues and released an expedited process, which may begin to encourage more townhome development as process issues continue to be resolved.

**Developer Capacity.** Since these middle housing types are difficult to build under current standards, there has not been as much of an incentive for local developers to cultivate familiarity with middle housing types. In addition to regulatory barriers, there is also a subsequent lack of experience with infill project types for those working in or near Midtown. Although there has been some townhome development in Missoula, it may be particularly challenging to start fourplex and sixplex development.

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<sup>3</sup> For ownership products, this means that 25% of units are affordable to households at 120% AMI. For rental products, 75% of units must be affordable to households below 60% AMI, or 25% of units affordable to households below 80% AMI. (See Missoula Municipal Code Section 20.100.010)

<sup>4</sup> Missoula Municipal Code Section 20.40.180.

<sup>5</sup> City of Missoula, "Recommendations Report: Subdivision and TED Regulations," December 2020, <https://www.engagemissoula.com/missoula-subdivision-regulations-review>.



## Prototype 4: Three-Story Multifamily Mixed-Use

This site transforms a parcel with a small, car-forward drive-up retail building into an integrated three story mixed-use multifamily building. This mixed-use development establishes a new urban edge along the main street while providing parking on the slower streets.

**Prototype 4: Three-Story Mixed Use (27 Units)**

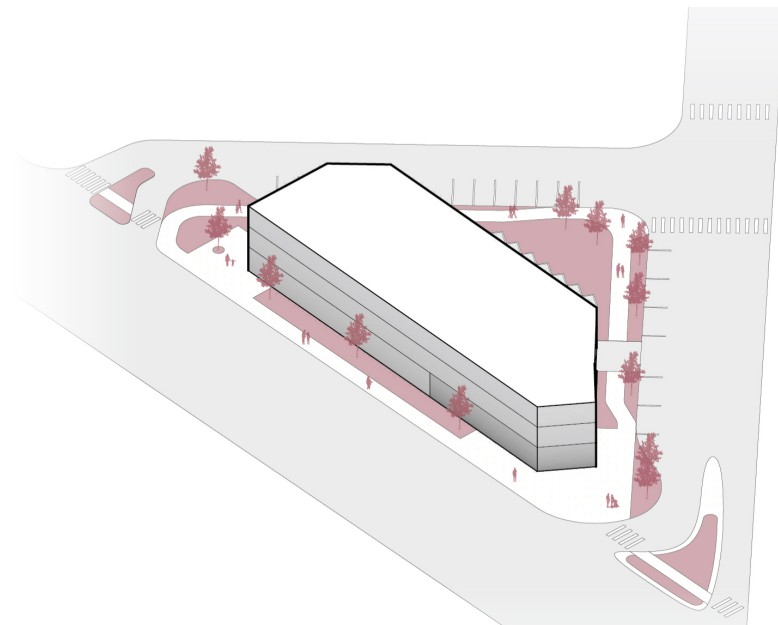
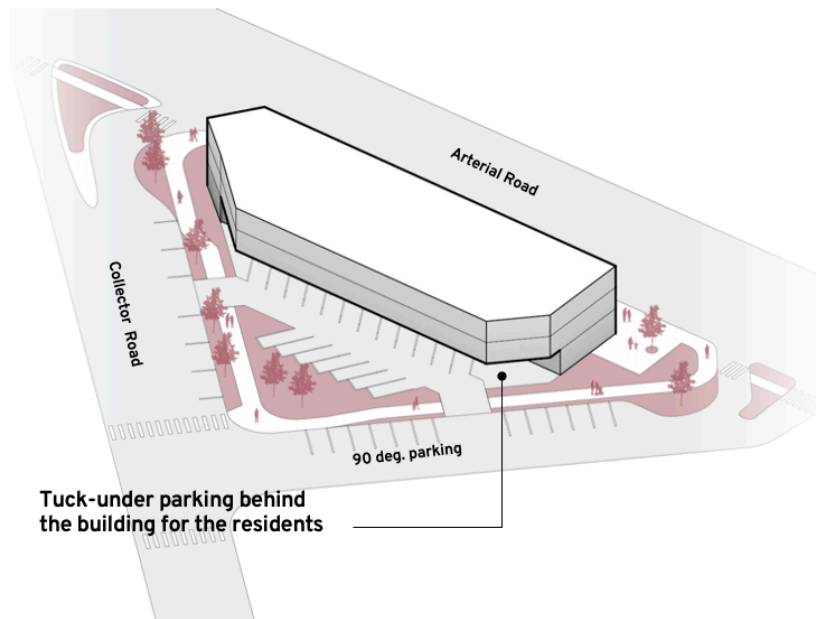
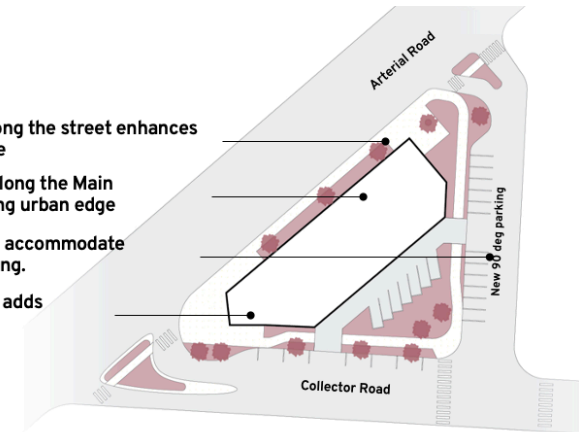
New Construction		Parking	
Residential Area (SF)	23,233	Residential Ratio	0.7
Commercial Area (SF)	3,482	Commercial Ratio	0
Amenity Area/ BOH	1,200/600	Total Spaces	19
Gross Floor Area	28,515		

The landscaped buffer along the street enhances the pedestrian experience

Elongated building face along the Main Connector creates a strong urban edge

Rework one side street to accommodate additional on-street parking.

Retail on the main corner adds activity to the site





# Prototype 5: Four-Story Multifamily Mixed-Use

This site transforms a parcel with a small, car-forward drive-up retail building into an integrated four story mixed-use multifamily building, similar to the three story prototype with an additional story. This mixed-use development establishes a new urban edge along the main street while providing parking on the slower streets.

**Prototype 5: Four-Story Mixed Use (39 Units)**

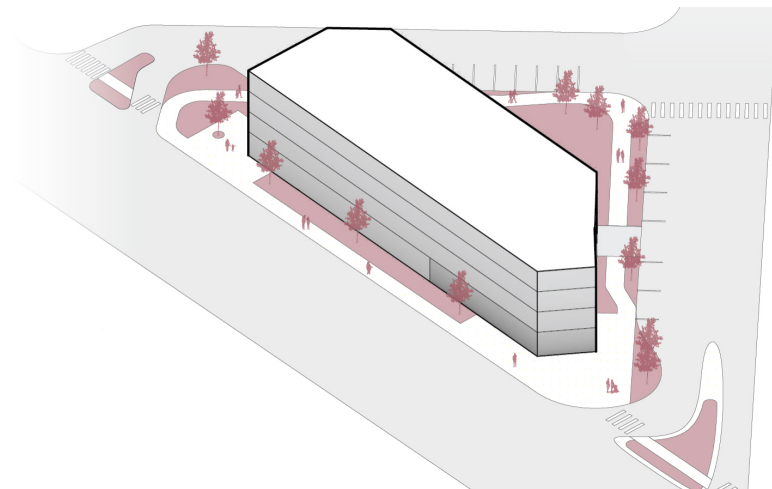
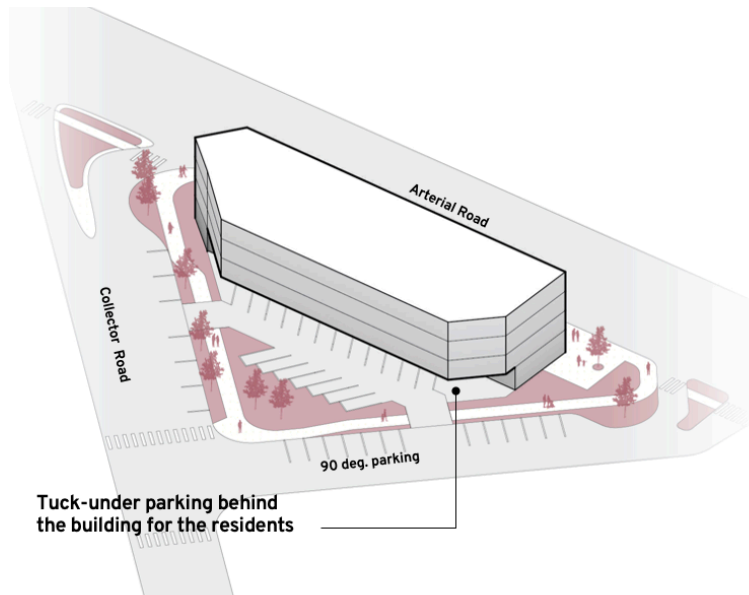
New Construction		Parking	
Residential Area (SF)	32,989	Residential Ratio	0.62
Commercial Area (SF)	3,482	Commercial Ratio	0
Amenity Area/ BOH	2,000/600	Total Spaces	24
Gross Floor Area	39,071		

The landscaped buffer along the street enhances the pedestrian experience

Elongated building face along the Main Connector creates a strong urban edge

Rework one side street to accommodate additional on-street parking.

Retail on the main corner adds activity to the site

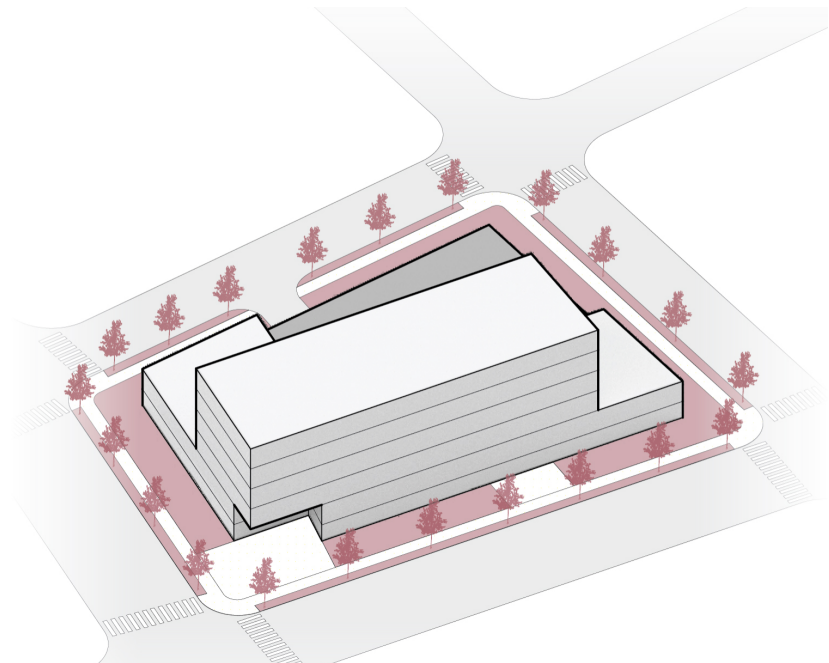
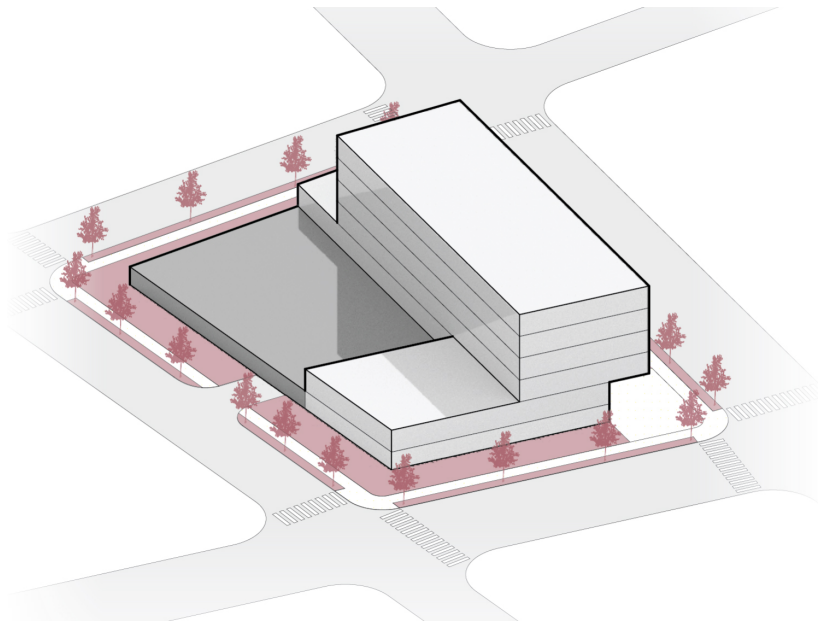
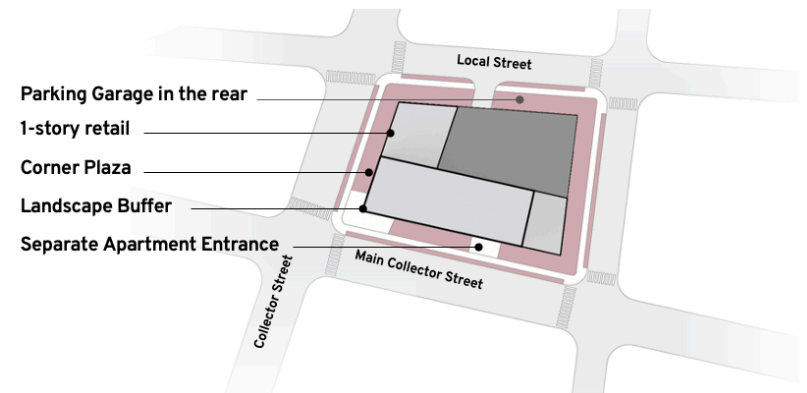


## Prototype 6: Six-Story Multifamily Mixed-Use

This site transforms a large, empty lot into a 6-story building. A larger apartment building would require a parking garage to provide parking for all units. The residential building fronts the major streets while moving the parking garage entrance to the back of the lot.

### Prototype 6: Six-Story Multifamily (84 Units)

New Construction		Parking	
Residential Area (SF)	70,980	Residential Ratio	1.0
Commercial Area (SF)	3,000	Commercial Ratio	0
Amenity Area/ BOH	3,660/ 1,000	Total Spaces	84
Gross Floor Area	78,640		

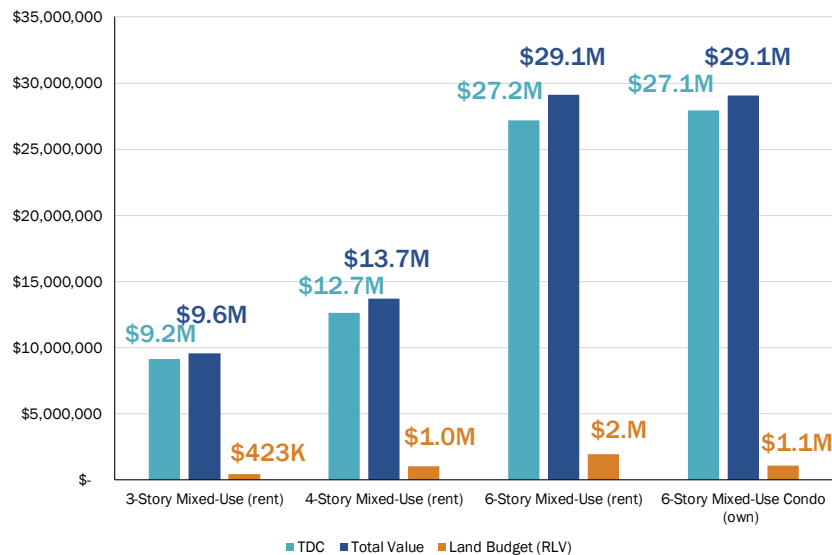


# Prototype Findings: Multifamily Mixed-Use 3-6 Stories

## Pro Forma Analysis

### Exhibit 5. Multifamily Mixed-Use Pro Forma Results

Source: ECONorthwest



## Key Findings

**Based on our analysis, RLV for the various multifamily mixed-use prototypes vary substantially, with differing implications for financial feasibility.** These include \$20 per square foot for a smaller three-story building, \$50 per

square foot for a taller four-story building, and \$40 to \$50 per square foot for a six-story podium development depending on targeted tenure type. In general, the larger the RLV value, the higher land costs that a developer would likely be able to afford for the project.

The estimated development costs and development value shown in Exhibit 5 are based on current market conditions, including recent development projects in Missoula. Several recent and proposed mixed-use projects in the area are achieving average rents above \$2.60 per square foot, which is roughly the break-even point for new higher density multifamily housing.

The growing strong performance of housing in the area, (especially multifamily rentals) has led to increasing rents that can sometimes support the overall development costs of mixed-use multifamily types where land acquisition and soft costs are low.<sup>6</sup> For the larger, six-story multifamily prototype, there is a high estimated RLV of \$40 to \$50 per square foot. However, from a return on costs metric, the six-story multifamily mixed-use prototype may not yet be able to support standard lending requirements.

<sup>6</sup> Development costs have been ground-truthed with developer interviews in the area.

On a typical 20,000 square foot triangle lot like the one modeled in Prototypes 4 and 5 (which reflects common site conditions on the Brooks Street corridor), a small residual land value (RLV) exists to produce a medium sized multifamily project. The RLV that exists for this product type could generally pay a maximum of \$20 to \$50 per square foot in land costs respectively. However, from a return on costs metric, both the three- and four-story multifamily mixed-use prototypes would fall just short of being able to support a standard lending requirement of 5.5 percent, estimated at 5.2 and 5.4 percent respectively.

**Local financial institutions might support a lower return on costs threshold which would make the three- and four-story prototypes feasible, but the six-story development would likely still need significant gap financing to pencil.** In addition to these feasibility metrics, there are regulatory barriers that could also create challenges for developing multifamily mixed-use buildings as shown in our prototypes, including:

**Parking Requirements.** The larger and more stories in a mixed-use multifamily development, the more parking it will require by city code regulations, as well as structured parking to be able to accommodate both the required parking and total development build out within the site. Current parking minimums would require new construction to provide between 1 to 1.5 parking spaces per unit for these multifamily prototypes.

Structured parking significantly impacts the feasibility of development. As shown in Exhibit 5, development costs increase substantially from a four-story to a six-story mixed-use project, mostly due to the structured parking that is built as part of the four-story mixed-use project.

This prototype deviates from current development standards by having a lower parking ratio of between 0.62 to 1.0 parking stalls per dwelling unit. Reducing or eliminating parking minimums and identifying shared parking opportunities are ways that can help make development more feasible and increase the number of residential units that could be built on site.

**Commercial Uses.** Adding a small amount of first floor commercial uses does not substantially impact the overall feasibility of these mixed-use prototypes, and the commercial rental value is only a small fraction of the total value. However, mixed-use residential projects can help produce much needed housing while providing neighborhood retail services desired in Midtown within walking distance to complimentary uses.

Reducing ground floor commercial requirements in vertical mixed-use buildings can help create viable commercial spaces for smaller retailers. Currently, the zoning code would require that a vertical mixed-use building of this scale would need nonresidential uses to account for twenty percent of the parcel area or more.<sup>7</sup>

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<sup>7</sup> Missoula Municipal Code Section 20.100.010.

For the three- and four-story prototypes, this would translate to 4,160 feet of retail space, and for the six-story prototype, 9,844 square feet would be required. These requirements could significantly alter the feasibility of each type and reduce the amount of space available for residential use.

**Phased Development.** The city's building permit process is not designed to accommodate larger projects which often require multiple phases over the course of several years. The six-story prototype or a larger multifamily mixed-use building may need to be done in multiple phases to allow a developer to secure financing and begin collecting some return on costs from residential and/or commercial rents.

Current procedure requires that developments are completed on a shorter timeline and entirely on the same building permit. This can preclude larger scale development, particularly from local developers who may not have the same resources as large national firms.

## Prototype 7: Creative Commercial (Makerspace/Food Hall)

This site transforms a small, car-forward drive-up retail building into a creative shared retail format (either a food hall or maker's space in our models). The existing parking is designed to have a landscaped buffer to separate the pedestrian entrance from the parking lot. The parking lot can transform into a small outdoor event space.

**Prototype 7: Creative Office/Makerspace (0 Units)**

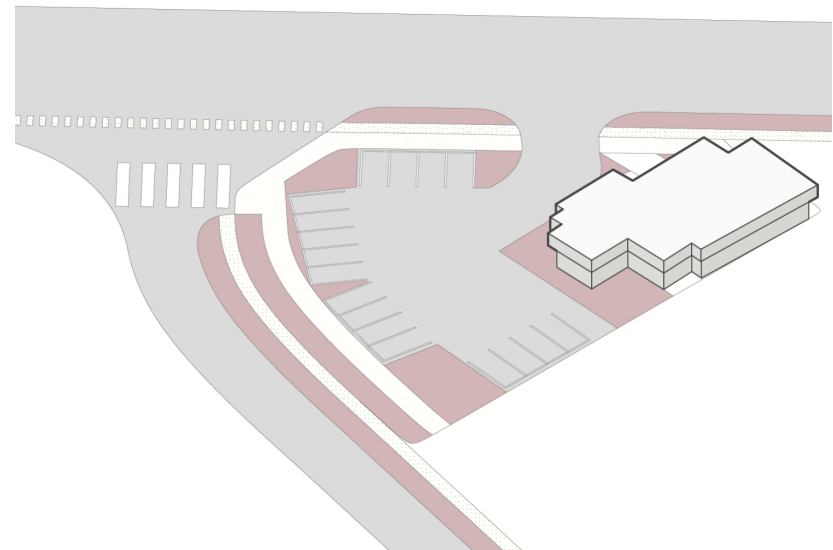
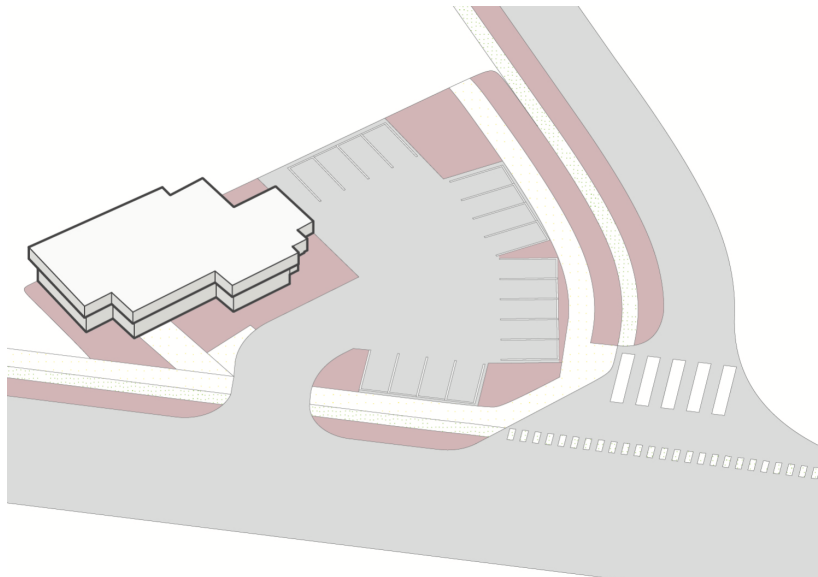
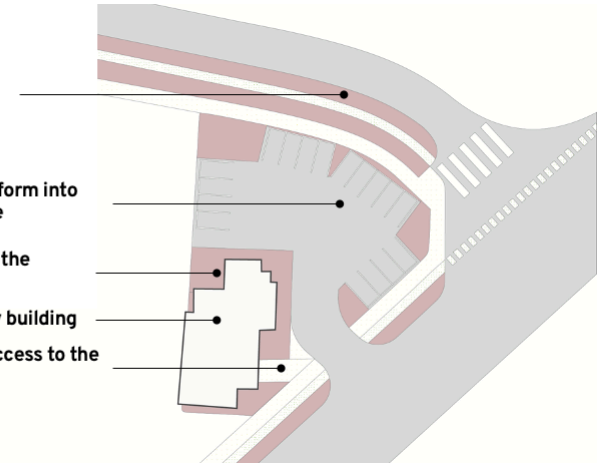
New Construction		Parking	
Residential Area (SF)	0	Residential Ratio	N/A
Commercial Area (SF)	15,000	Commercial Ratio	
Amenity Area/ BOH	2,000	Total Spaces	45
Gross Floor Area	17,000		

Landscaped streetscape

Parking lot could transform into an outdoor event space

Landscape buffer from the parking

Adaptive Reuse 1-story building  
Prioritize pedestrian access to the building

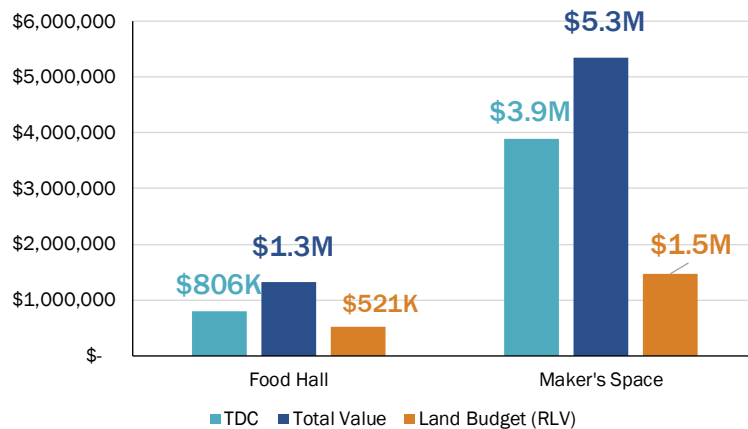


# Prototype Findings: Creative Commercial

## Pro Forma Analysis

### Exhibit 6. Creative Commercial Pro Forma Results

Source: ECONorthwest



## Key Findings

**Both the food hall and makerspace prototypes that we tested for creative commercial redevelopment would likely be feasible.** Although the makerspace use has a much higher total value, the combination of hard and soft costs needed for development give it a lower RLV at approximately \$27 per square foot. The food hall use performed better using this metric at \$42 per square foot, making it one of the most feasible development types in this analysis. The return on costs anticipated for these types is higher than any residential

type we tested and meets standard industry requirements at 8.2 and 6.8 percent respectively.

Although these types have not yet been built in Midtown, restaurants and offices are use types that are permitted outright in commercial (B and C) zones that cover large portions of the area, as well as Midtown's highest density residential zone (RM1-35). The triangular parcel type shown in the prototype is a common site condition along Brooks Street, one of Midtown's key corridors lined with compatible zoning where the intensity of development is anticipated to grow in response to new federal infrastructure investments.

Development standards in the code for commercial buildings would align with the site configuration shown in this prototype, though adjacency to low-density residential zones could place additional restrictions on setback and building height regulations. If a specific site were fronting on the same street as an abutting R zoned parcel, it would be required to match the actual front or street side setback of the building (or meet at least 50 percent of the setback that would apply if the parcel were vacant). In these instances, rear setbacks also must be 25% of the parcel's depth or 20 feet.<sup>8</sup> This could limit feasibility even for these relatively low-density commercial types or create delays for land use review for irregular parcels.

<sup>8</sup> Missoula Municipal Code Section 20.10.030.



# Conclusions

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## Middle Housing (Townhomes, Fourplex, Triplex)

Few buildings similar to the middle housing prototypes (including townhomes, fourplexes, and sixplexes) have been built in Midtown to date, despite our pro forma analysis findings that they would likely be financially feasible. Current zoning restrictions are likely a primary reason that the market has not delivered many of these projects to date, including use allowances in some residential zones, maximum densities, parking requirements, and design standards.

Aside from zoning restrictions, lack of familiarity with these product types among the developer community in Missoula may be a reason that they are not being built in Midtown. Developers also indicated issues with permitting and review processes, particularly for townhome development and achieving incentives which are available through the Design Excellence Overlay.

## Multifamily Mixed-Use (Three-, Four-, and Six Story)

A larger six-story multifamily mixed-use building is unlikely to be feasible under current conditions in Midtown, but three- to four-story developments might be possible with support from a local lender or favorable changes in the market. Although some areas of Midtown have already been upzoned to allow for new housing and mixed-use development types (such as vertical mixed-use buildings and larger multifamily buildings), requirements related to parking, square footage of

commercial space, and square footage per dwelling unit may be preventing development that aligns with community desires and provides small-scale neighborhood services.

For mixed-use multifamily buildings, relaxing current requirements for square footage of ground floor retail space could also be a critical next step to make projects more successful at integrating active ground-floor uses and providing housing in key corridors for future public investment.

## Creative Commercial Redevelopment (Food Hall and Makerspace)

Adaptive reuse for a creative commercial uses like food halls and makerspaces is a specialized type of development. Although our analysis shows that they would be feasible in Midtown's abundant commercial or industrial zoned areas, many developers working in Midtown may not be familiar with this type of project.

There are parcels throughout Midtown that could be candidates for this type of redevelopment, but the extent of spot zoning in Midtown may create regulatory barriers for sites adjacent to residential parcels.