

GUEST COLUMN

Redevelopment in an Age of Uncertainty

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Federal stimulus money is beginning to make its way down the ladder to states, counties, metropolitan areas and cities. Many municipalities and public agencies are eager to use these and other funds to jumpstart development projects, in large part to attract and retain residents, businesses and tourists in today's difficult economic climate. But in order to effectively capitalize on their share of the stimulus package, as well as on longer-term demographic and economic shifts, cities and redevelopment agencies will need to align their visions and goals with today's market realities of real estate development. Strategic planning, commitment to a vision, strong leadership, and true public/private partnerships will all be key factors for successful projects in the next phase of the development cycle.

Successful developments understand their market strengths and weaknesses, and position themselves accordingly. Cities are no different — they compete against each other for dollars from businesses, residents and tourists. The challenge for municipalities (and their political leaders) in today's hyper-competitive climate is to undergo an honest self-assessment in order to understand how they and their planned developments fit into the marketplace. Identifying existing — and potential — differentiators is critical.

Accessibility, transit options, proximity to employment, natural amenities, historical sites — these and many other attributes help sell cities and their developments to potential tenants, residents and developers. Likewise, the redevelopment efforts themselves can help to create and reinforce a city's competitive advantages, building on the existing assets. By identifying its strengths within its regional and competitive environments, a city can forge a strong identity that can be integrated into its redevelopment projects as well as its marketing campaigns.

Bay Area Cities Maximize Existing Assets

The city of Livermore for example, focused on its winemaking heritage when it began the redevelopment of its downtown. Architectural and planning features, including vine trellises along redeveloped First Street, helped create an identity and "sense of place" that distinguished it from other cities in the East Bay region. Livermore's neighbor to the west, Pleasanton, has strongly marketed its central location and transportation options to attract development, which has in turn enticed businesses, residents and supporting commercial uses to move in.

Proximity to transit, especially light rail, is increasingly becoming a differentiator for municipal projects, and one that the private sector is paying attention to. Much of the coming stimulus money will go to fund transportation and infrastructure projects, and well-planned transit-oriented developments can become significant catalyst projects for a redevelopment area. The Pleasant Hill BART Transit Village, which is owned by a joint powers authority consisting of Bay Area Rapid Transit, Contra Costa County and the Contra Costa



Redevelopment Agency, is an example of a mixed-use transit-oriented development looking to market its transportation options, including its adjacency to light rail, as a differentiator. Planned for residential, office, retail and civic uses, the Transit Village will replace an underutilized parking lot and will be developed by the JPA and a private-sector partnership consisting of commercial and residential developers.

A common challenge to development plans is the misalignment of the vision of the public sector with the market-based realities of the private sector. As a result, many well-intentioned plans don't make it off of the drawing board. For example, a city or redevelopment agency may desire regional-serving retail at the core of their town center plans, but access, visibility and oversupply issues may all prevent a commercial developer from taking on this risk. Critical to minimizing market risk is a fundamental analysis of demand drivers and supply trends combined with input from all stakeholders, including the key private sector players necessary to help the project move forward.

Collaboration is Key to Successful Redevelopment

San Diego's City Heights Urban Village is widely lauded as a redevelopment success. Critical to this success was the involvement of the developer, CityLink Investment Corp., in the planning and visioning process. Public officials have praised CityLink's involvement, citing the developer's ability to help shape and execute the master plan, along with its recruitment of government agencies, schools and nonprofits to help make the project a reality. The pedestrian-friendly, mixed-use village includes multiple public and private uses, including a retail center, townhome apartments, offices, a new police station, library, gym, recreation center and park. CityLink worked together with the city of San Diego, Price Charities and several other public and private entities in this ambitious, collaborative effort.

Establishing a true public/private partnership can create a win-win situation for municipalities and developers. However, in today's economic environment, project financing is a major hurdle. Faced with more stringent underwriting standards, private developers

are severely constrained in sourcing funds for new projects.

The public sector must be attuned to today's financial realities when crafting its plans and visions, and should identify proper incentives that will help the private sector participate in the planned projects. Parking, for example, is something that a city might build in order to help offset developer expenses, potentially turning a project that doesn't pro forma to one that pencils. The city of Brea built two structured parking garages that can accommodate 2,000 vehicles behind the street-oriented buildings along its main downtown street, allowing the developer to focus on the financing of the residential and commercial buildings. In total, the public sector invested about \$50 million in downtown Brea, creating the infrastructure that was necessary for redevelopment to occur. With items such as parking already in place, the private sector invested \$80 million to develop downtown Brea.

Cities and municipalities, whose greatest contribution to a public/private partnership is usually redevelopment agency-owned land, can support a project's viability in other creative ways. The Pleasant Hill BART Transit Village will remain under the ownership of the JPA, which will provide a ground lease to the private sector for development of the commercial land uses. The JPA will also sell a small parcel for the development of for-sale residential uses.

The JPA, recognizing the difficulties of financing a mixed-use project as well as the necessity of having the Transit Village succeed to warrant the upfront investments, came up with a creative but realistic plan for financing the various stages of the project's development. The public sector will fund upfront items such as a replacement BART parking garage and village "place-making" elements including parks and plaza spaces. The ground lease agreement will provide a long-term revenue stream from rental income, and the sale of the residential parcel will help the JPA with upfront value capture of its land. The private sector will be able to participate in the project with the public sector as its development and financial partner. Each entity has a stake in the long-term success of the new development.

Political and Civic Will are Critical to Success

Political leaders must provide the assurance of their long-term commitment to a vision and a project in order to attract the required private-sector development partners. The Culver City Redevelopment Agency, which funds its redevelopment projects with tax increment financing, has helped to transform its downtown area into a lively mixed-use environment through its proactive commitment and long-term vision. This public leadership has helped develop catalyst projects, revive the city's cinematic heritage, create a pedestrian-friendly core and attract businesses to the area. Early phase successes were critical in rallying public support and attracting the private sector. Cities and public agencies throughout the state must make similar commitments. Elected officials and high-level staff members must display the political will and leadership to champion selected projects in order to forge true partnerships with the private sector and ensure the success of their city's developments in the next phase of the economic cycle. 🏗️



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