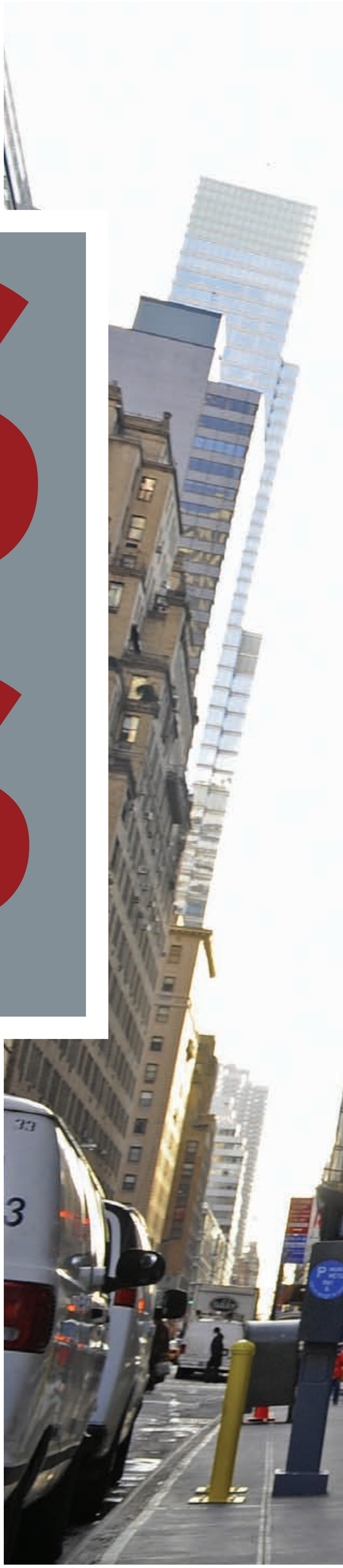
DAVID WAITE

Short-Term FIXES Long-Term CURES at Vacated Commercial Sites



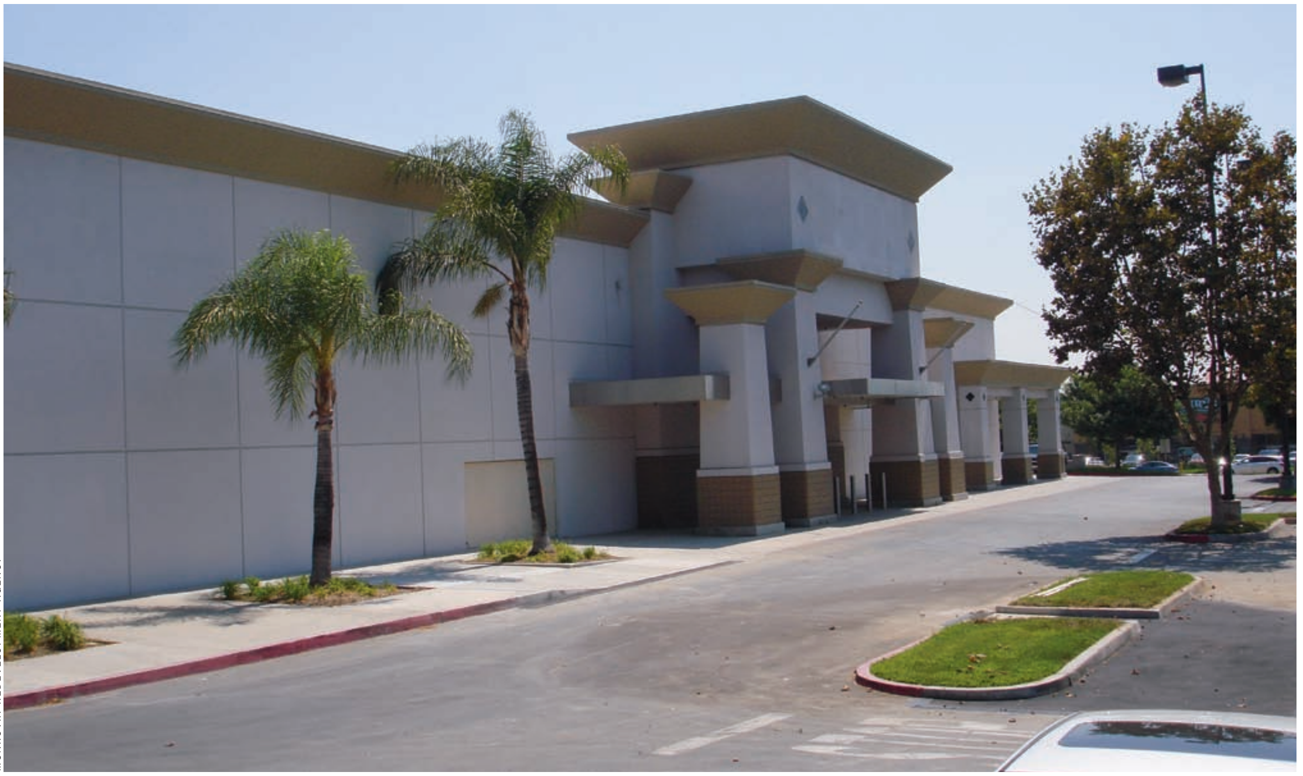
The economic recession will result in significant long-term changes to local land use in the United States that should be both challenging and transformative.

Local governments have been hit hard by the shuttering of commercial and retail properties, including big-box stores and more than 2,300 auto dealerships, and by rapidly declining occupancy taxes from the anemic hospitality and resort sector. As municipalities scramble to replace the lost sales tax revenue, local agencies and elected officials find themselves keenly aware of the long-term effect that empty stores, vacant car lots, fewer employers, and low levels of employment will have on their communities.


retail
space
for
lease

In order to attract investment partners, some cities are willing to offer redevelopment loans to find a good business match for their communities. Monrovia, California, for example, by providing an economic development loan, pulled in a qualified retailer, Living Spaces, for a large space vacated by Home Depot Expo Design.

MONROVIA REDEVELOPMENT AGENCY



Some city leaders are responding both aggressively and creatively to lure new retailers and developers who can craft new uses for vacated commercial properties, finding opportunities amid the challenges and engaging in long-range planning that could change the landscape of their cities. Other city governments remain entrenched in the status quo, believing the economy will rebound to 2007 levels, generating sales tax revenue from the same troubled sources. A number of cities know that an aggressive plan of action is needed but are stymied by disagreements about which direction to take, or they simply are unaware of the resources available to them.

What they all have come to understand is that the future of their cities is at stake. Revenues from past sources of sales taxes—which accounted for a substantial, double-digit portion of city operating funds—as well as the many civic benefits provided to communities by engaged retailers are unlikely to return to previous levels. City officials are coming to realize that in order to attract investment partners, they need to create land use incentives—including investments in infrastructure—at strategic locations that can support and catalyze sustainable commercial and transit-oriented, mixed-use growth and development.

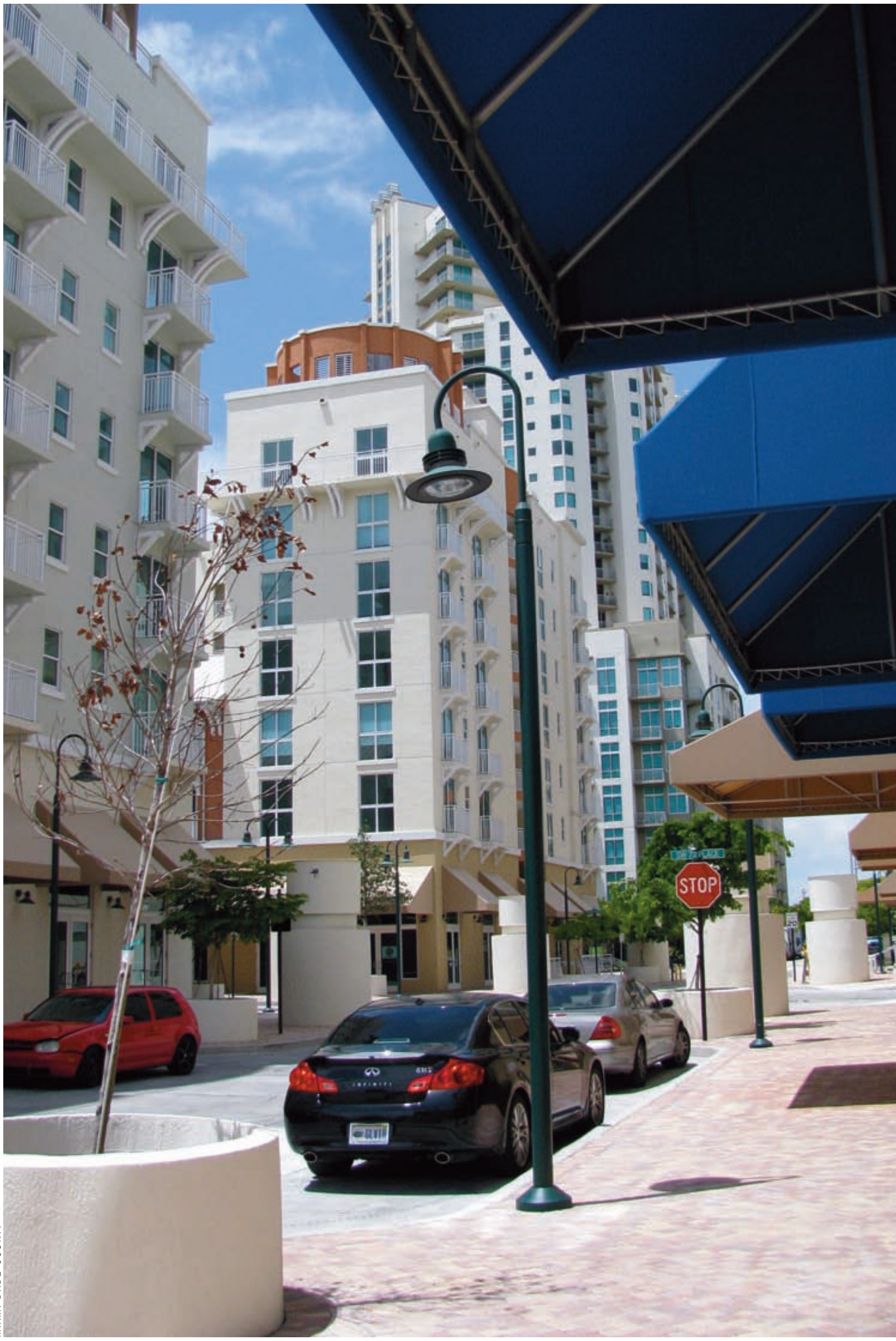
"Cities are like people," notes Larry Kosmont, president and chief executive of Kosmont Companies, a public/private real estate advisory firm in Los Angeles. "They can be in denial or be fearful, but they can also change their minds and take action based on good information." To address immediate revenue losses, Kosmont's municipal clients are revising their retail strategies to attract employers that can use existing commercial properties, paying special attention to those that can occupy vacant properties near freeways and other high-traffic areas, he says. "Some cities are willing to provide redevelopment loans, to invest property tax increments, or invest future sales taxes to acquire the right kind of employer and business for their communities," he notes.

For example, Monrovia, a southern California town, struggled to find the right tenant for a space vacated by Home Depot Expo Design Center—at 88,000 square feet (8,200 sq m), too large for most businesses, but not large enough for a store like Target or Wal-Mart. Yet, Monrovia's redevelopment agency was able to snag a qualified retailer by providing an economic development loan, an option that Kosmont says can be effective when used wisely. The new retailer, Living Spaces, is expected to contribute more sales tax revenue to the city than the Expo Design Center had before closing, and has worked out a plan with the city to repay the loan, with payments determined by sales tax revenue generated.

Nearby Lancaster, a rapidly growing city in southern California, found a creative way to boost automobile sales and direct revenue toward local businesses through a “shop and drive” program. Consumers who bought or leased a new car between this past March and June were given a rebate for the state registration fees, which run about 1.8 percent of a vehicle’s purchase price. The rebate was in the form of a gift certificate redeemable at one of almost 400 participating city businesses, including small local retailers, medical services, and even some big-box stores. Automobile dealers saw car sales hold steady instead of decline, with 800 sold during the program. Program manager Heather Swan, in Lancaster’s economic redevelopment department, estimates that more than $25 million was spent at local car dealerships and businesses during the program.

The crafting of new uses for properties used by auto dealerships in particular presents a host of challenges to cities (see “Auto Dealership Sites Offer High-Density Opportunities” on the following page). Cities are struggling with how to rezone these types of areas, while owners are coming to grips with the declining market value of their properties, the potential need for costly environmental remediation, and the challenge of marketing odd-sized lots and structures that may not be suitable for most kinds of retail businesses. Some cities are holding the line on current zoning restrictions, making it impossible for any business except an auto dealership to use a shuttered dealership’s property.

This is not a feasible option, says Rick Breuer, vice president and specialist in the disposition of automotive properties at SRS Real Estate Partners in Phoenix. “Even if the automobile market rebounds, demand for retail showrooms and display lots will not return. The industry is overbuilt and overfacilitized,” he says. The number of facilities is based on a national annual sales rate of 16 million vehicles, while the current



MIAMI-DADE COUNTY

Vacated commercial properties that can support and catalyze sustainable commercial and transit-oriented, mixed-use growth are prime candidates for conversion. Downtown Dadeland, built on the site of a former Cadillac dealership in Miami-Dade County, is now a pedestrian-friendly urban village, accessible by two light-rail lines, with a mix of specialty shops, restaurants, and banks at ground level with residential space above.

annual sales rate is on pace for 10 million vehicles. “Plus, the way people buy cars has changed,” he says. Dealers and buyers are using the Internet to achieve efficiencies in the automobile sales cycle, reducing the number of visits to showrooms.

Breuer suggests that these vacant properties be marketed to warehouse-based businesses, vocational schools, and fleet service facilities, but zoning restrictions prevent pursuit of these markets.

“A lot of things have to change before these properties start to move,” says Breuer. Auto dealerships will continue to consolidate, and substantially less land will be required to support retail dealerships as on-line sales and advertising replace salespeople in large showrooms. Though there will be no single template for success, he notes, because every site and every community has different constraints and opportunities, cities need to actively plan for redevelopment of these sites.

One successful redevelopment of such a site is the mixed-use Downtown Dadeland project in Kendall in Miami-Dade County, which was conceived and financed ten years ago. Formerly the site of a 7.5-acre (3-ha) Cadillac dealership, it is now occupied by seven low-rise buildings with specialty shops, restaurants, and banks on the 127,586-square-foot (11,853-sq-m) ground level, with residential space above. The pedestrian-friendly urban village is accessible by two light-rail lines.

In Scottsdale, Arizona, a similar approach may be needed for the McDowell Corridor, an auto mall that in 2006 generated nearly $10 million in sales tax revenue, according to Rob Millar, strategic programs manager for the city. Last year, sales tax revenue dwindled to $5.2 million, and now vacancies abound, causing concern for nearby residents, notes Millar. The McDowell Corridor/South Scottsdale Economic Development Task Force, composed of business owners, residents, and property owners, now is exploring options for the site.

Most vacant properties require construction and renovation of some sort before they can be occupied, but current credit markets make it extremely difficult for private parties to obtain construction loans. Cities are responding by participating in public/private partnerships, which require both public and private equity and can attract the kind of employers who will occupy vacant buildings.

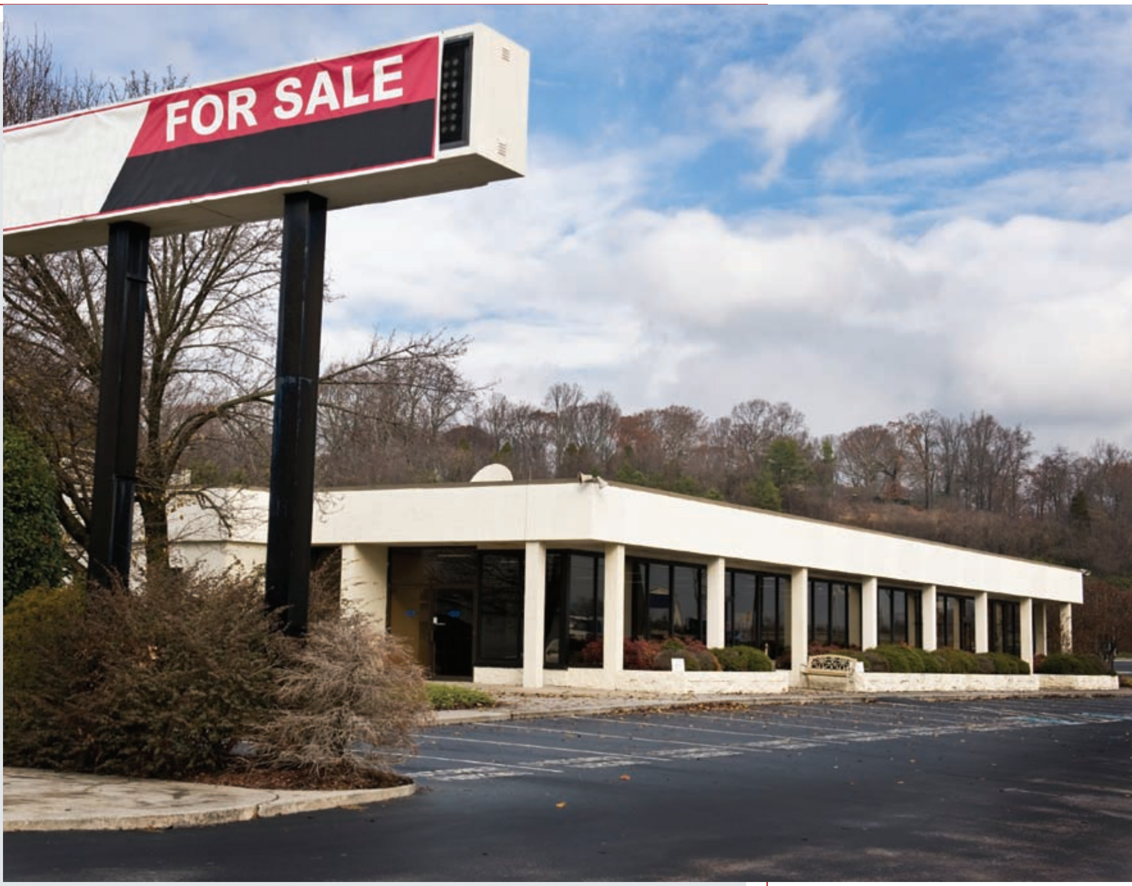
Auto Dealership Sites Offer High-Density Residential Opportunities

Evaluating a closed auto dealership for reuse and redevelopment presents unique land use challenges and opportunities. From a land use perspective, there are generally two types of dealership.

Older dealerships—typically located for decades on small urban properties of one to two acres (0.4 to 0.8 ha) within well-established communities—usually are part of the streetfront urban fabric and have long-established zoning, land use, and operating permits. Many cities have grown and evolved around auto dealerships, with high-value commercial and residential land uses now located adjacent to the dealership. Commercial zoning on these sites is flexible in some cities, particularly if they have recently amended or updated their general plans and zoning codes to reflect new land use patterns and opportunities for infill, mixed-use, or transit-oriented development.

For example, development standards for infill dealership sites may allow a mix of high-density residential, multifamily, and commercial development, with height and setback requirements allowing high-density development along commercial corridors. Existing road, water, and sewer infrastructure is often sufficient to support redevelopment of infill dealership sites for such mixed uses. If a property is located near existing or planned transit and public parking facilities, parking requirements may be relaxed. Traffic, circulation, and vehicle-trip counts associated with a change in use from an auto dealership to a mixed-use project may be negligible, minimizing the need for road and traffic improvements.

Though all these factors portend a favorable transition in land use from auto dealership to infill development, potential negative factors associated with such a change include a lengthy entitlement and environmental review process to obtain permits and approvals, and the possibility of community or political opposition to an infill project with increased height and density. In addition,



the potential for costly environmental cleanup of contamination associated with underground fuel storage tanks, wastewater clarifiers, service and repair bays, and chemical storage facilities needs to be thoroughly evaluated as part of an environmental assessment and site characterization.

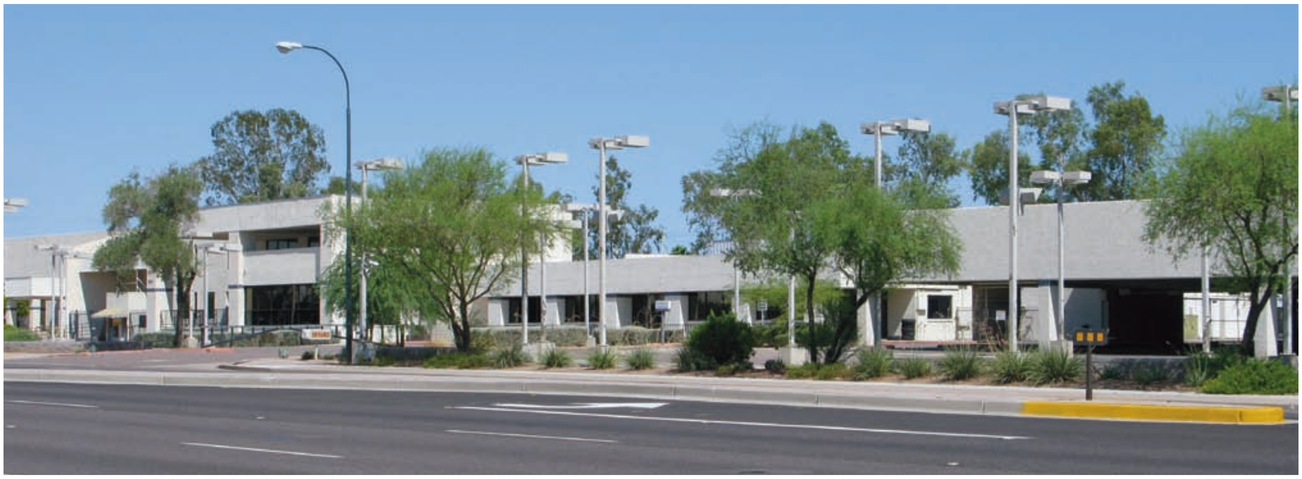
New dealerships, usually located on the suburban edge of development, often are associated with larger auto malls and pose potentially more significant land use challenges for reuse and redevelopment. They typically are located on at least four to five acres (1.6 to 2 ha), and some facilities are as large as ten to 12 acres (4 to 5 ha). These developments emerged in the 1980s and 1990s as communities sought commercial development opportunities on lower-value suburban land to generate sales tax revenue.

Because these sites are often zoned in city general plans for exclusive use as an auto dealership, allowing other commercial or residential land uses requires the strong and sustained will of city political leaders. As is the case with older dealerships, auto malls and their acres of pavement will be replaced by new, higher-value land uses as suburban communities urbanize and land values rise over decades of growth and development.

The decision facing city leaders in the near term is whether to rezone new dealership sites to allow more flexible land uses in an era of dealership consolidation. Many cities that depend on sales tax revenue from auto dealers will resist such a change, instead holding out hope that emerging technologies, such as electric cars, will eventually revive the industry.

The bigger question is whether the automobile industry will ever recover to the degree needed to support the acres of land currently devoted exclusively to dealerships. At the very least, cities will need to create a high degree of flexibility in their land use plans to allow alternative land uses on shuttered dealership sites until the industry has recovered to a degree that its likely future size and scale can be known.

Even with the increased activity triggered by the federal "cash for clunkers" rebate program, the risk of a sustained period of visual and economic blight on these properties seems far too great to allow cities to await a sustained auto sector recovery, especially when the industry is unlikely to resemble in the future what it was in the past.—D.W.



In the McDowell Corridor of Scottsdale, Arizona, an auto mall that in 2006 generated nearly $10 million in sales tax revenue is now vacant (above), along with numerous other properties in the area, causing concern among its neighbors. One of the city's revitalized districts offers recently built waterfront residential condominiums (right).

CITY OF SCOTTSDALE ECONOMIC VITALITY DEPARTMENT

Both cities and developers are looking into how provisions in the American Recovery and Reinvestment Act of 2009—the stimulus bill—can be used to get businesses to occupy vacant big-box stores and other commercial properties. Under the bill, recovery-zone facility bonds—essentially tax-exempt financing for private use—are allocated according to certain criteria to cities and counties with populations of more than 100,000 for use by the private sector for activity in a city's recovery zone.

Recovery-zone facility bonds, established to achieve the stimulus bill goal of boosting employment, can attract employers to vacant buildings, and can be used to complete unfinished or stalled projects, amounting to a win-win for the employer and the city, says Kosmont. But cities need to be aware that the bonds—available only through the end of 2010—need to be creditworthy and also work for the investor so that all stakeholders will benefit.

Recovery-zone economic development bonds, also available under the stimulus bill, are targeted for development of public facilities, infrastructure improvements such as streets and utilities, job training, and educational facilities. Cities authorized to use these bonds find the program to be valuable because the federal government's reimbursement of interest paid on the bond makes their actual expense lower than that for tax-exempt bonds, says Kosmont.

Public entities should first assess and inventory the key sites and commercial corridors where activity is failing. Infill sites—typically less than two acres (0.8 ha)—can create opportunities for mixed-use and transit-oriented residential and retail development. As cities confront the reality that certain commercial uses will likely never return, they need to evaluate their general plans, specific plans, and zoning codes to determine whether their land use restrictions are outdated and impeding redevelopment of commercial sites for new or alternative uses. At the same time, infrastructure and transit needs should be evaluated to determine whether transportation links

How the Stimulus Bill Can Be Used to Get Businesses to Occupy Vacant Commercial Properties

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Cities should take the lead in creating the investment platform at key commercial sites, using the redevelopment and public financing tools at their disposal. They should minimize, wherever possible, the need for exhaustive discretionary approvals and entitlements for desired development. By implementing planning that targets end users, cities can more easily attract development partners to participate in building infrastructure and revitalize failing commercial corridors.

In the current economic environment in which cities compete with one another for scarce private development dollars, those that remove barriers to entry for development partners will be more likely to succeed. In order for cities to adapt to the changing commercial landscape, they will need to take a practical and active approach to replacing much-needed operating revenue, both in the short term and throughout the current economic cycle. Planning commercial sites for new or alternative uses can result in substantial economic benefits to cities struggling in the current economy. Through proactive planning and development, cities should be able to look back on the current challenging economic environment with a sense that opportunities were seized rather than ignored and lost. UL

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