

Urban Land Archives: March 2003

The Comeback Burbs

by David Stauffer

Public/private partnership is critical for successful redevelopment in America's first-tier suburbs.

America's first-tier suburbs—also referred to as older, inner-ring, and first suburbs—have attributes that distinguish them from the central cities that most of them border and the newer, outer suburbs that they adjoin. Like big cities, they tend to have vibrant downtowns, but on the smaller, more intimate scale associated with suburbs. Their homes are usually more affordable than those of the central city and are more likely than outer suburban homes to be within walking distance of schools, recreation centers, and stores. In light of their impact on real estate redevelopment, the question is whether these distinctive attributes constitute a treasure trove of attractions or a Pandora's box of drawbacks. "I see a lot of value in them—and lots of headaches for sure," says planner Kelley Hrabe, a supporter of redevelopment and infill in older suburbs, and director of project development for Walton Construction, a Kansas City, Missouri, general contractor.

Another believer in restoring the inner suburbs is Steve Van Amburgh, CEO of the Dallas-based Koll Development Company, who, at the same time, laments that they offer few or no opportunities for his customer base—the large, corporate build-to-suit market. "Talk to any corporate real estate department and you'll find there are compelling reasons why they decide to build where they do," mostly on exurban greenfield sites, he notes.

While the advisability of venturing into first-tier suburban redevelopment is a topic of debate among many in the industry, there is little or no argument that America's older suburbs deserve revitalization. "For me, the appeal includes a relatively short commute, the physical beauty of the community, a quaint small-town feel, good schools, and the ability to walk downtown," says Robert A. Marchman, a vice president of the New York Stock Exchange and chairman of the South Orange-Maplewood, New Jersey, Community Coalition on Race, who moved to Maplewood in 1991. Joan E. Primo, a principal of real estate and retail consultants the Strategic Edge in Southfield, Michigan, agrees. "We're finding that the customer really craves that downtown experience" of first-tier suburbs, she says. "That, plus the sense of community, are very important to many people."

In addition, the hybrid nature of first-tier suburbs—with some qualities of central cities and other characteristics of outer suburbs—can present appealing market opportunities. The most recognized of these is their attractiveness to affluent and growing populations—especially empty-nest boomers and young professionals—who seek easy access to big-city amenities without the hectic pace and higher costs of in-town living. "We're consistently seeing underserved markets in the inner suburbs," says Ray Uttenhove, a senior vice president and retail team director in the Atlanta office of the commercial real estate services firm CB Richard Ellis.

Demographics are not the only thing propelling the first-tier comeback, according to zoning and land use attorney Carl E. Westmoreland, a partner in the Atlanta firm of Powell, Goldstein, Frazer & Murphy. For an increasing number of people, he says, an exurban residence is too far from the workplace, so they are moving toward metropolitan centers to improve their lifestyle. "The market is finally compelling them to do what planners could never do," he maintains.

The inner suburb's "just right" location—neither too far out nor too far in—is a key advantage, as is the "economics of the area, which, in some locations, can give you a major price-point advantage," says John Knott, Jr., president and CEO of the Noisette Company. Knott, whose company is redeveloping 3,000 acres of North Charleston, South Carolina, explains that the mean price of a home there is well below that of houses in Charleston and adjoining, farther-out suburbs. "So we start with location and market advantages, and add to that the workday net in-migration of some 100,000 commuters. Assuming most people would like to live near where they work, we stand to capture a share of that," he observes.

Still, inner suburbs face challenges. "It's not an automatic that the infrastructure is in place," points out Gary Garczynski, president of residential developer National Capital Land & Development Company of Woodbridge, Virginia. Even when infrastructure is in place, the passage of time often has taken a toll, he adds, citing one builder who found water lines made of wood.

Unlike most central cities and outer suburbs, close-in suburbs tend to have neighborhoods that are long established, close knit, and relatively stable. Those qualities are generally thought of as positive—until a

redevelopment project is proposed for such a neighborhood. "These people may not be as accustomed to change as those with a more [outer] suburban mindset," notes Westmoreland. "They bought their half acre in 1975, and why should anything change?" is how many of them feel, he says. "We as developers and designers typically create our own problem," comments Knott. When the first announcement of a company's planned project includes an unveiling of the plans, no matter how conceptualized and removed from what might eventually be built, "we're regarded as imposing our views of what their lives should be."

That sort of impression can be avoided through community meetings that precede development, notes Steve Burkholder, mayor of Lakewood, Colorado, and chairman of the newly formed First Tier Suburbs Council of the National League of Cities. He cites as an example the opening of a retail mall in Lakewood. "The developer did a lot of public relations work in the neighborhoods, but you've got to go out and talk, stand up for what you believe in," he insists. The key to minimizing neighbors' objections is "building the case," concurs Michael L. Cantor, a partner in the consulting firm Allegro Realty Advisors, Ltd., in Independence, Ohio. "Get out and talk about past successes. Show actual impacts, such as before-and-after traffic counts and property values," he advises. Extensive community involvement along these lines almost always requires more time and effort than would be required for development in exurban greenfields or even in inner cities, where often there are fewer surrounding residents, and they are more transient and more accustomed to redevelopment. "These processes and structures are messy," concedes Bill Barnes, director of research and municipal programs at the National League of Cities. "But what's crucial is that they allow a struggle to emerge. That's okay—it's called politics." It is a means by which issues eventually get resolved, he says.

However, government processes that move at one-half or one-third normal speed are a concern, maintains Robert C. White, Sr., CEO of Marietta, Georgia, residential developer/builder Venture Homes, Inc. "I think we need change, for example, in the way most rezoning is done," he says. A fine line divides beneficial process from wasteful bureaucracy in gaining approvals for inner-suburban projects, points out Russell Lamb, a principal of Allegro Realty Advisors. "For any required step, government representatives may see usefulness where developers see uselessness," he notes. "Government should always try to reduce impediments—and developers should similarly make allowances for public processes." Redevelopments and infill projects generally present fewer regulatory hurdles, says James J. Garibaldi, Jr., president and CEO of JBG Rosenfeld Retail Properties, a Bethesda, Maryland, company that specializes in retail redevelopment. "I think that, on balance, they are a little easier to work on than some greenfield projects," says Garibaldi. "Usually, whatever is there, or was there, is old and outdated. Government and the neighborhood tend to want something new and different."

Complex, multifaceted financial structures are common in, and often essential to, making first-tier suburban redevelopment projects viable. "There's no template for making [the deal] happen," says Burkholder. "Each one is different from all others." And private participants would do well to recognize that public officials face different business considerations than do developers. "They, too, have their equations that determine if a project makes economic sense," says Max Friedman, a partner in the New York law firm of Pillsbury Winthrop LLP, who specializes in real estate and redevelopment. "But they're not the same equations as on the private side."

Further complicating financial arrangements is the need for diverse private players to think beyond their more conventional central city and outer suburban projects. For example, retailers may have to rework their prototypes, Garibaldi explains, perhaps accepting a lower parking ratio, or going to a multistory format or a smaller concept if space is constrained. The demographics of inner-suburban markets often do not fit the traditional retail customer models, but that does not necessarily mean that they lack clout, points out retail specialist Maranda Walker, in CB Richard Ellis's Atlanta office. "Their diversity can be a strength."

One thing officials and staffs of inner-suburban jurisdictions hope is understood by all private sector participants in redevelopment and infill projects is that even a small project involves more than putting up structures and meeting revenue projections. "The issues aren't just development and redevelopment, but all of the issues around quality of life," says Barnes. "Any project isn't just a matter of a good design for a good project, but a vision for the community as a place in a region."

Public officials and staff members have at least as much of an obligation as do private sector players to make redevelopment and infill projects work. In many instances, they may face their biggest challenge at the starting gate. "This is unfamiliar ground for suburban officials," according to an article in *Governing* magazine ("After the Mall," October 2002). "Most are too timid to propose large-scale redevelopment ... and will wait for developers to present their own ideas." Former Indianapolis mayor William H. Hudnut III, senior resident fellow at the Urban Land Institute, believes public officials' inaction stems less often from timidity than from discouragement. "Some of them have only seen development moving out," he says. Hudnut, author of ULI's upcoming book *Halfway to Everywhere: A Portrait of America's First-Tier Suburbs*, recalls a meeting several years ago with the mayor of a first-tier suburb. "He gestured with a wave to the town's main street outside his window and said, 'The state can't afford to repave our main street, but they can find \$500 million to build an interstate exit 15 miles farther out.'"

Inner-suburban officials should be aggressive in responding to such inattention, Hrabec says. With most

growth moving outward, and state and federal assistance programs aimed chiefly at central cities, the first-tier suburbs are at a disadvantage, he says. "But they need to ask, what are the opportunities? Old housing stock that's often superb, old downtowns that are attractive—it comes down to each community and its unique strengths." To grab private sector attention, those strengths might be expressed as part of a business plan— "getting business by being more businesslike," Hrabe says. Governments also would do well to seek a broader range of projects than "big-fix" megaprojects, such as ballparks and festival marketplaces, according to Kennedy Smith, director of the National Main Street Center of the Washington, D.C.-based National Trust for Historic Preservation. Existing shops and current residents often are better served by incremental redevelopment, she contends, such as the progressively more ambitious projects that have revived Blue Island, Illinois, a close-in suburb of Chicago.

A critical aspect of public officials becoming more businesslike is their recognition of the financial realities of most inner-suburban redevelopment projects. Two realities that often play a role in determining if projects come to fruition are whether the public participates in the financing and acceptance of risk, and whether there is a possibility for a higher-than-average, long-term return for private investors. Tax increment financing and other public funding can help level the playing field between first-tier and greenfield development, says Hrabe. "Some suburbs are too proud: they say only [central cities accept public funding] because they're dilapidated. But without incentives, the developers will usually have to go elsewhere." Absence of incentives may not always send developers elsewhere, points out Garczynski, but usually it will mean that a residential project will consist only of higher-priced homes. Financial participation by the public sector is not necessarily required, he says. Instead, public officials can allow higher density for a development or can expedite processing "so there's not two years of rezoning before a builder scratches dirt," says Garczynski.

Some public officials seem not to understand the link between investment—of both money and time—and return. "The public and their representatives need to better understand that while these projects can provide a healthy return over time, that's not unfair given the level of risk going in," notes Friedman. There are "unrealistic expectations of what the public side thinks the private side should invest," laments real estate finance and development attorney Jay J. Levin, also a partner in the Atlanta firm of Powell, Goldstein, Frazer & Murphy. "It's easy to spend other people's money." At the same time, Garibaldi says he wishes that public officials and the citizens they represent had a greater appreciation of what developers cannot do. For example, "We don't have access to unlimited project funds, and we don't have every national retailer in line for these projects from whom they can pick and choose," he notes.

Opposition to change in the status quo is a common hurdle for developers. "We tend to have lots of people in first-tier suburbs who are long-term residents who understandably wish to have what used to be," says Burkholder. But "what used to be" can stand in the way of what is best for today, he says. "Some people will say they want a guarantee of keeping existing zoning, with minimum lots of 8,000 square feet," explains Burkholder. Opposition to high density, he notes, is one of the biggest challenges—an opinion that prevails among public and private sector players alike. Joseph Lengeling, a principal of Magnusson Architecture and Planning in New York City, urges public officials and private interests to preach density's benefits. "It brings better services, more socializing, and better bottles of wine," he points out. Nonetheless, "two things Americans most hate are sprawl and density—we find it to be true all the time," Garczynski says. "Some officials and county staffs do lots of preaching about smart growth, and then resist density. They use the term 'smart growth' on their own terms, and many of their constituents do, too," he adds. "All the talk about smart growth is left at the door when neighbors pack the room for a rezoning hearing," concurs Westmoreland.

That means officials who stand up for their principles can make a decisive difference when they demonstrate the "political will to face the inevitable controversy," says Orange County, California, land use attorney Tim Paone, with Manatt, Phelps & Phillips. Garczynski relates that for one infill project, "we had make-or-break support from the county supervisor who represents that area. She went into the surrounding neighborhoods and personally sold the idea." Today, "where we had seven homes, four of them abandoned, we now have nearly 200 townhomes priced quite affordably for that community." That outcome, Garczynski says, is for him an ultimate goal of redevelopment and infill in first-tier suburbs.

Such first-tier suburban development is possible if private sector players join with their public sector counterparts "in true partnership ... with an absolute feeling of mutual trust," says Burkholder. Such relationships, Hudnut contends, may characterize the way development will be conducted in the new century to accommodate growth. "I believe we may be moving from an old paradigm [of greenfield development] to a new paradigm of restorative development," he says. "We need it."

David Stauffer is a Red Lodge, Montana-based business and economics writer.

FEATURE BOX

Building Community Consensus for Redevelopment

What is the developer's biggest risk outside of economics and market conditions? "It's the people in the neighborhoods and government representatives," says John Knott, Jr., president and CEO of the Noisette Company, which is redeveloping 3,000 acres of North Charleston, South Carolina. "But if you've done your work, they're with you." Most of that work, Knott asserts, consists of this four-step process of building community consensus:

- Know the community. "We worked three years on research into this community before we went to the community. We had to understand the heritage before we could begin to create the vision we would share. Then we laid out a vision based on that research and got reactions in the form of questions asked and answers given."
- Eat and greet. Provide a dinner, with eight to ten community residents at each table along with one member of the developer's team and neighborhood maps on which participants can indicate their visions for the community. Leaders from the tables confer with one another, and "we document it all," says Knott.
- Preserve treasures. Provide disposable cameras to community members to take photos depicting what they regard as the community's treasures—not only features that exist, but also places where lost treasures might be restored. As participants eat a lunch provided by the developer, process the photos and display them for discussion purposes. "That tells our designers what they want," adds Knott.
- Bring them together. Bring together people from all the neighborhoods that will be affected by the development to look at similarities and differences among their reactions to the plans presented to date. Participants are given crayons and paper and invited to "tear up what our designers have presented," Knott says, adding, "But they're usually respectful."

"Does all this take more time? Yes, at first, but over time, no," points out Knott. "Does all this take more money? Yes, at first, but over time, no. Is it less expensive than zoning attorneys? By far. Is it less expensive than litigation? Double by far."—**D.S.**

March 2003

© 2003 ULI—the Urban Land Institute, all rights reserved.