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For seminar details and registration information, call Ms. Kelly Moore at (916) 448-8760.

The New Redevelopment: Substituting Public/Private Partnerships for Acquisition Dollars

By Dr. Claude Gruen, Principal Economist, Gruen Gruen + Associates

Cities have a very legitimate interest in the health of private real estate within their boarders. Real estate blight cripples the local economy and chokes the flow of tax dollars into local public treasuries. That is why, starting in the mid-1930's cities began to actively seek the removal and rebuilding of areas within their jurisdiction that in those days were called slums. Initially, municipal slum clearance agencies would buy obsolete properties and evict the current residents with no concern or awareness of the damage done the dispossessed. In the days of slum clearance, the cleared land was resold to the developers to build modern residential, commercial or industrial neighborhoods and in some cases reused for public housing.

The programs were aborted during World War II (1941-45), but while the country was engaged in the war, plans were made for a federally-funded program of what came to be called Urban Renewal. The Federal Housing Act of 1949 laid out and provided massive funding for a program that was joined by many cities across the United States. Interestingly enough, the motivation for the programs, like the highway program, had been to prime the pump of government spending to avoid the depression that planners like architect Enrico Saarinen and economist Alvin Hanson had predicted would follow the war. The recession never came, but urban renewal became an important part of the municipal experience of most older cities.

Over the years, the program became more concerned with the plight of those being dispossessed, more sophisticated in its objectives and administration, and gradually less dependent upon federal financing. By the 1990's, the role of the federal government has been quite small, but state-mandated programs had expanded geographically to most areas which had real estate that the market was unable to redevelop or even initially develop to its "highest and best use." In California, tax increment financing had become the major source of dollars for the acquisition of property and provision of needed infrastructure. Typically, once an area had been designated as blighted and a plan approved by the local redevelopment agency, the land was bought by the agency at one price and then resold for less to private developers who sought, sometimes successfully, and sometimes not, to implement the redevelopment plan. The program now takes great care to protect the interests of any displaced residents or businesses and to avoid negative spillover effects on other properties.

But while the implementation of redevelopment has improved, its sources of funds have been choked off as neither the cities nor the state have the resources to devote to urban renewal. In California, the State has seen the pool

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New CRA Service!

Beginning this month in the *Redevelopment Journal* you will find a new section entitled **Business Opportunities** which include various Requests for Proposals and Qualifications.

The *Journal* is currently being circulated to over 275 private sector affiliates of the California Redevelopment Association. By placing your RFP/RFQ in the *Journal*, you will be reaching redevelopment, legal and financial consultants, developers and nonprofit organizations, as well as various staff members of cities and counties throughout California.

The cost to place your RFP/RFP is $5/line for members and $6/line for non-members. For more information or to obtain a Rate Brochure, please contact Ms. Kelly Moore, Membership Services Representative, at (916) 448-8760. ■

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. . . Partnerships for Acquisition Dollars

of tax increment funds held by redevelopment agencies as a source of dollars to stave off massive deficits in the State budget. Redevelopment agencies do not have the funds to continue to buy and resell lands to developers for less than the acquisition price. Therefore, they are starting to use tools that redevelopment has honed over the years in owner participation programs that fund most of the acquisitions and some of the other costs of redevelopment. Fortunately, the new arrangement is a significant improvement over the old public/ private partnership that was redevelopment. Actually, the agency-initiated land acquirement traditional approach to renewal was not a true public/ private partnership, but more of a business *ménage à trois*, with one sure winner and two partners scrambling after what was often too little benefits to satisfy them both. The original landowners were the sure winners, particularly if the land owner engaged a competent condemnation defense team. Usually what happened was that the original property owner got more than their obsolete marginal properties were worth in addition to a tax advantage golden parachute. The other two partners, the city and the developer, then proceeded to split the benefits of the enhanced values that resulted from redevelopment. Both of the parties were to some degree adversarial, as they fought for each of them to reduce their costs in the hope that they could get benefits from the market that would exceed those costs.

Fortunately, the new form of owner participation has some real advantages over the former. It still has to overcome the barriers that create blight by keeping the area from converting to its highest and best use, but it does so much more cost effectively, and probably more equitably than the way redevelopment

was frequently accomplished in the 1970's and 1980's.

The biggest difference is the way property is acquired. No more need the agency purchase all lands and then deed them over to the redeveloping party. Instead, only the hold-outs—those roadblocks to redevelopment—are condemned after much property has come under the control of the private developing agency. In the City of Half Moon Bay, CA, for example, the private Ocean Colony Partners own 120 acres of the 139 acres that under the South Wavecrest Redevelopment Plan was to be developed as an 18-hole golf course with 50 single-family residences and a hotel. The remaining 19 acres not owned by Ocean Colony were under multiple ownerships, totaling approximately 85 persons or entities. These lands had been subdivided into very small lots in 1907, which worked to create blight as they were too small to be developed under modern market and political conditions.

An owner participation agreement (OPA) was worked out between the private real estate developer, Ocean Colony Partners, and the Community Development Agency of the City of Half Moon Bay. Under the Agreement, the developer promised to finance the agency's acquisition, by condemnation if necessary, of the 19 acres needed for the execution of the redevelopment plan.

The Half Moon Bay example also demonstrates an important benefit that the OPA arrangement gives the developer and those who finance their efforts. An attachment to the OPA is a cooperation agreement between the redevelopment agency and the City of Half Moon Bay, under which the City agrees to approve the redevelopment plan and cooperate with the developer in seeking permits needed from other governmental or quasi-governmental agencies, such as the Coastal Commission. The granting of local entitlement and assistance with other required approvals helps cut the costs and delays frequently associated with getting entitlement. Also, since in California, redevelopment plans are not subject to referendum, it protects controversial projects from the danger of hitting the project-killing land mine called a referendum.

To be successful, redevelopment always requires market responsive, financially feasible planning. Assuring that plans are disciplined by these twin determinants of success is made easier when both the city and the developer working together with cards-on-the-table financial information and objective market assessments. In Scottsdale,

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Gruen Gruen + Associates (CRA Associate Member) is a San Francisco-based real estate/land use policy consulting firm with branch offices in Chicago (IL) and San Diego (CA).

Arizona, where our firm is working on a 75-acre owner participation redevelopment project in that City's extremely successful downtown, the City issued an RFP to developers and then divided the area into coordinated subprojects, each of which is being planned with the developer who controls most of the land within their project area. We find it easier to work with the owner participation planners without the conflict that tended to be caused when developers' concern centered on the price tag of the land to be redeveloped.

What does remain as a source of tension and sometimes conflict is how much the city will contribute to the infrastructure needed by the project. The issue is particularly sensitive in Scottsdale, because Arizona does not permit tax increment financing. The City's contribution to the infrastructure of the projects must come from the City's capital improvement budget.

What we have done in Scottsdale is to make out forms that list all costs and revenue items for the alternative plans under consideration. Both the City and developer agree on those costs and market-based revenue estimates, so that the returns to both parties can be estimated. The City is shooting for an 8% return on its investment in infrastructure and understands that the developer must have in excess of 12% on his equity for the plan to be feasible.

The tools of redevelopment from condemnation to various financing mechanisms work even better to break down the barriers of blight and achieve the best market potential when they are wielded by the more equal partnership of an owner participating developer and the municipal agency than they did under the more adversarial form of traditional urban renewal. While the agency can still initiate the process with a Request for Proposal, it is now possible for the project owner to start the blight identification and redevelopment planning process. As always, creative, market-sensitive planning and implementation are at a premium. ■