

DOWNTOWN COLORADO

— inc.

A Short Guide to Redevelopment

For Local Governments and Redevelopment Agencies



FOR DOWNTOWN COLORADO, INC.

This guide to redevelopment is intended to inform local governments and redevelopment agencies about the context and process for positioning sites for sale to developers. The concepts and approaches presented herein are important to effectively understand all the parameters of a negotiation and anticipate obstacles and solutions. It is a guide to developing a well-grounded internal "Term Sheet" to summarize important points and desired terms and conditions for public property sale to a private-sector developer and form the basis of a strong and effective development agreement.

About this Guide

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FIVE COMPONENTS TO CREATING A REDEVELOPMENT STRATEGY:

The following high-level components should be considered in creating a development or redevelopment strategy. Not all the following approaches will be used depending on the site and situation, but are worth becoming familiar with to choose which are applicable to a particular situation:

- 1 Community Vision and Reuse Plan
- 2 Communications Plan
- 3 Site Redevelopment Analysis
- 4 Transaction Strategy
- 5 Public Investment Analysis

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Community Vision and Reuse Plan

KEY CONCEPTS

- Visioning
- Property Types that Fit Vision
- Evaluating Property Type Reuse Options
- Prioritizing Redevelopment Opportunities for Site Redevelopment Analysis

Visioning includes existing comprehensive plans, neighborhood plans, zoning overlays, and/or other types of charettes and public workshops focused on the development area or site. Often public input references specific uses, retailers, retail goods, and services identified as an undersupply or a missing element in the local market. Meanwhile, development or redevelopment is the action of improving land and or buildings. It is useful to ensure that public input is translated into real estate types such as retail, commercial, industrial, and public spaces.

Site conditions can enable or restrict development depending upon the intended use. Physical characteristics that may enhance or inhibit a particular development type and should be evaluated. A site should be prioritized based on multiple factors including physical ability and site characteristics that support the desired physical reuse, access, utilities availability, and frontage.

Real estate economic concepts of anticipation, change, balance, conformity, and contribution should be considered. Sites can be prioritized based on each site's ability to conform with surrounding uses and/or to be a catalyst and influence future land uses. Marketability and the existence of site challenges (and ease and cost to resolve those challenges) should also be a factor in prioritizing sites for redevelopment.

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Communications Plan

KEY CONCEPTS

- Regular Principal Meetings
- Stakeholder Collaboration Outreach
- City Council Presentations on Collaboration and Progress
- Public Meetings

A committee, stakeholder group, board, or other working group should be established. This should be a small group of decision makers (aka Principals) representing the stakeholders involved in financial and transactional stakeholders. This will be the authoritative group that will determine specifics of the transaction deal. Each member should have authority to make decisions on behalf of their represented stakeholder group or entity, be willing to proactively take part in deal negotiations, and can hold confidentiality within the group. There should be a single point of contact with negotiating and signature approval on behalf of the Principals.

There should be an agreed upon outreach strategy for:

- Working group members to inform the stakeholders they represent. This plan should also include approaches to inform the public and provide Transparency.
- Working group members to inform local government elected officials and staff.
- Holding periodic public meetings and gathering community feedback. It may be desirable to customize a web page presence and maintain outreach via social media.



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Site Redevelopment Analysis

Integration with Local Economy and Community

KEY CONCEPTS

- Asset Mapping
- Neighborhood/District Integration

A community embodies a dynamic economic system based on land resources. Mapping these assets can inform a redevelopment and transaction strategy. Neighborhood and district integration considers a proposed use's interaction with existing local activity hubs and commercial centers. Economic and community development strategies should be considered in evaluating the site's contribution to the local economic system and how it can integrate with regional business and labor markets, scenic byways and historic elements, regional transportation routes, and transit corridors.

Development Potential

KEY CONCEPTS

- Market Analysis
- Highest and Best Use
- Developer required rates of Return
- Public Benefits and Public Rate of Return

From a real estate investment perspective highest and best use is that development project that yields the highest rate of return to the private-sector developer and is an important concept to understand the negotiating position of the developer. Highest and best use is evaluated through market and feasibility analysis. This concept is important to the public sector as well because it informs negotiations about potential feasibility gaps and related financial challenges that could subvert a successful sale and reuse of the property; and informs the public-sector as to potential co-investment or economic incentives that may be required to achieve the redevelopment goals for the community.

Highest and best use from a public benefits perspective may be a reuse that does not provide the highest return on investment to the developer. The private developer will base its acquisition decisions on competing investment opportunities and may invest elsewhere. Public co-investment may be necessary to satisfy the developer's hurdle rate of return while ensuring that community goals are met. To achieve fiscal, economic, and other public goals, understanding market dynamics is essential to finding a nexus between public co-investment that supports public goals and a public responsibility to not overly enrich private sector investor. An understanding of the public rates of return and developer required rates of return is advantageous in negotiating a successful transaction and achieving the desired public returns on public investment (which can include nonfinancial elements). A development agreement between the selected developer and the public-sector can be formalized in a Development Agreement.

Due Diligence

KEY CONCEPTS

- Buyer Due Diligence
- Seller Due Diligence
- Environmental Conditions
- Site and Building Construction
- Market Intelligence and Investment Analysis
- Land Development, Site Development and Vertical Development

Due diligence is research and investigation performed to confirm facts and discover potential but relevant unknowns to inform a decision. In the financial world, due diligence entails an examination of financial and legal records before entering a proposed transaction with another party. Additionally, in the real estate development arena, due diligence is undertaken to investigate the existence and impact of site characteristics and legal recordings affecting usability, buildability, and liability. Examples include easements, topographical issue, and environmental liabilities.

Buyer's due diligence is investigative research to inform their investment decisions. Sellers due diligence informs the seller about market pricing, value premiums or impairments, and potential deal hurdles. Conducting due diligence is advantageous for sellers to understand the asset being marketed and to have insight into deal challenges that may arise. Importantly, due diligence provides the seller information needed to respond to development proposals quickly and effectively.

Buyers due diligence can be costly and time consuming. Since these are sunk costs should the developer not pursue a project or not be the winning bidder, due diligence costs can keep potentially interested parties from pursuing a development project. Sellers due diligence tasks overlap with buyer's due diligence and it may be fitting for the seller to share due diligence information with the buyer to lower their up front and riskiest costs to attract bidders and keep developers engaged. In many instances providing visioning expectations including renderings and model proformas in the marketing package is advised for more complicated and riskier projects and enable a better risk analysis by the potential developer.

Typical due diligence tasks can include, but are not necessarily limited to, reviewing, obtaining, creating, or confirming the following items:

- Land Survey
- Soil Engineering Studies
- Property Inspection
- Water/Mineral Rights
- Zoning/Code Compliance
- Title and Recordings Search
- Deed Restrictions
- Environmental Screening and Assessments: Natural Environment and Hazardous Material
- Flood maps
- Tax Certificates
- Market Studies and Feasibility Analysis
- Development and Operating Proformas
- Market Valuation/Appraisal
- Development and construction Cost Analysis
- Existing leases
- Americans with Disabilities Act
- Compliance
- Structural Survey
- Mechanical Equipment Survey



Real estate development falls into three broad categories: land development, site development, and vertical development. Land development refers to making raw land into a developable parcel by providing access and utilities to the parcel. Site development entails installing curbs, gutters, site work, and other improvements making this site ready for vertical development. Vertical development describes the construction of buildings and other structures on the site. These three phases of construction can be undertaken individually by different developers or all by a single developer. This phasing can provide flexibility to strategically phasing in a complete project and evaluating risks for investment analysis.

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Transaction Strategy

Develop Market Intelligence

KEY CONCEPTS

- Local Market Advisor Collaboration
- Development-Based Focus Groups

KEY CONCEPTS

- Title Plan
- Transaction Approval Process
- Develop Preliminary Term Sheet
- Public-Co-Investment and Public-Private Partnerships
- Development Agreement
- Marketing Plan
- Purchase/Sale Agreement

Typically, there are individuals and professionals in the community well versed in real estate market fundamentals, financing and financing risks, development, market needs, and the local entitlement process. Reaching out to these professionals can be informative for seller's due diligence and the request for development proposal process. Inviting these potential collaborative partners to one, or several, development-based focus group meetings can be insightful as to market parameters and developer hot buttons. These focus groups are not intended to be for visioning and community feedback purposes, but rather for the seller to better understand on-the-ground market realities. Each group meeting should be topical for local government stakeholders and special interests, the real estate and finance community, business associations and economic developers, and local socially conscious nongovernmental organizations. Not only a source for market intelligence, but these individuals can also be marketing spokespersons for the project. Various advisors are likely to emerge willing to provide ongoing feedback and perhaps an important addition to the project working group.

Depending on the situation the chain of ownership of a redevelopment site can be as simple as a redevelopment agency or municipality selling a property to a developer, or somewhat more complex with an intermediary owner, nonprofit, or other interim ownership structure to resolve specific issues. Sales contracts may be conditional in nature where the buyer or seller must fulfill certain obligations on the way toward closing. In any event, there should be a clear path for title transfer ultimately to the developer. Local agencies holding property should understand the financial and liability position for long term or interim ownership including immediate capital investments and ongoing maintenance and repair needs.

Developers are always timid about governmental rules and processes concerning sales and development approvals for real property. The seller should have a clear understanding of the authorizations, approvals, and time headways needed close the deal. Being able to clearly layout the path forward provides assurances to the developer on how and when the transaction can occur. Often, unexpected time and approval delays can make a developer gun shy in the project as well as future projects in the community. It is important to maintain your community as collaborative and welcoming to developers.

A term sheet is a nonbinding agreement that shows the basic terms and conditions of an investment and is a useful reference document for maximizing public returns on public investment. It is a resource to be used while developing request for development proposals and negotiating sales agreements. AN internal Term Sheet keeps all seller Principals on the same page. The term sheet serves as a template and basis for more detailed, legally binding documents. Once the parties involved reach a negotiated agreement on deal terms, conforming and legally binding agreements can be drawn up.

The seller should be aware of likely feasibility and financing gaps and should consider whether to offer public co-investment and other economic development incentives. For urban renewal authorities and downtown development authorities tax increment financing is an important co-investment tool. Other co-investments may include use tax waivers, building fee reductions or waivers, infrastructure investment, and other public investments that enhance the success of the project. These kinds of public investments also buy a seat at the table in terms of directing aspects of the development. A development



agreement between the developer and the seller ensures that the seller's requests are honored and lays out the structure of any public investment. By another name development agreements form the basis for public-private partnerships.

Marketing plans to reach potential developers should be informational and instructional on the project vision, potential issues found during due diligence, expectations, and itemize any flexibility that will be provided to the developer in designing and building the final project. It may be useful to also include information on public investment that could be considered for this project. The idea of a marketing plan is to ensure a knowledgeable buyer and expectations of the seller. Ultimately both parties negotiate from a strong position of market and site intelligence and quickly agree to the terms of a final purchase/sale agreement for their property.

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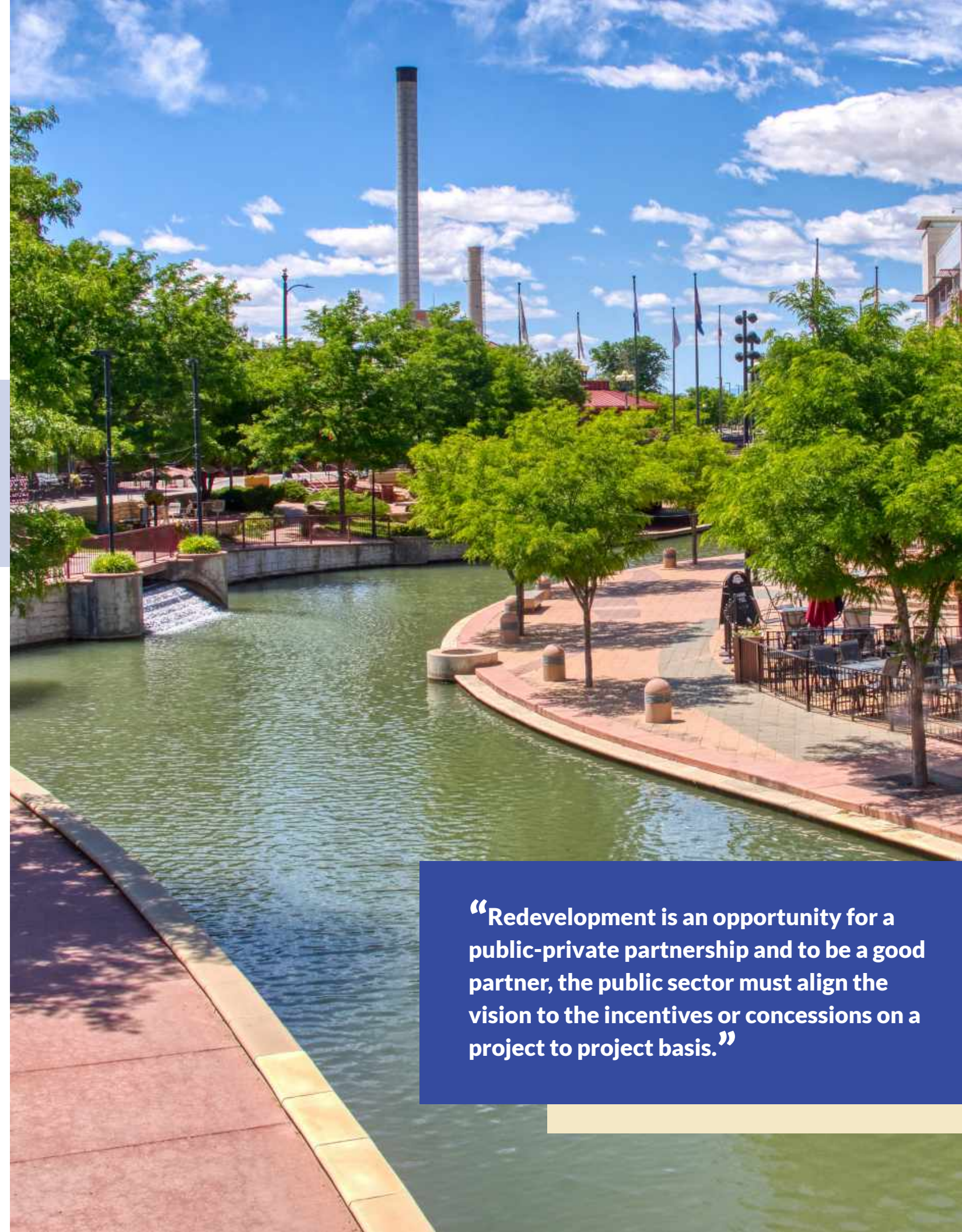
Public Investment Analysis

KEY CONCEPTS

- Municipal Revenue
- Governmental Service Costs
- Evaluating Public Impacts

Property tax and sales tax increments can create a revenue stream to fund the redevelopment project as well as other redevelopment agency programs. In most municipal budgets property and sales tax is but a small percentage of total revenues generated through taxes, fees, and other programmatic income. Redevelopment brings new households and new jobs to further augment municipal revenue, along with potentially more costly governmental services. Taking these various impacts into consideration can help guide public policy regarding rates of return on public investment. Impacts can be anticipated or evaluated after project completion using several impact analysis tools including, but not necessarily limited to, the following studies:

- Economic Impacts
- Fiscal Impacts
- Social Impacts
- Transportation Impacts
- Public Investment Cost/Benefit Analysis



“Redevelopment is an opportunity for a public-private partnership and to be a good partner, the public sector must align the vision to the incentives or concessions on a project to project basis.”

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