

Teams Work

Collaboration is the key to successful economic development projects.

By Sara Drummond

The first lesson of economic development is that it pays to be in the right place at the right time. And in today's economic climate, the right place is just off Highway 12/14 in Middleton, Wis., where Rob A. Zache, CCIM, president of Central Place Real Estate in Middleton, is developing a vacant land site. "This has evolved from a typical private stand-alone development to a site impacted by major Department of Transportation highway improvements, which has evolved into a city-controlled transit-oriented development, including a public parking garage, a park and ride site for the University of Wisconsin–Madison, UW hospitals, and several other local hospitals, and also a light-rail train station and parking garage, with private [development] hotel, retail, and office components."

Zache is working with the city to master plan the site and the adjacent areas for development. He's also figuring out his own plan. "We intend to sell the hotel component to a separate hotel or developer to write down the land cost and then develop retail and/or retail/office mixed-use on the [rest of the site]." The city's planning agency is now organizing the project and applying for city tax increment financing for the private projects, state DOT transportation funding for the roads, and from President Obama's stimulus package, federal transportation grants for the light rail. Construction may start in a year, depending on financing and the city's ever-evolving plan, but Zache admits that the "timing is totally out of our hands."

Obviously the ability to go with the flow is the second lesson of working with economic development teams. But more than that, it takes a certain respect for all the processes at work. "The intersection of real estate, land use, and economic development brings together the public and private sector," says Kathleen Rose, CCIM, president of Rose & Associates in Davidson, N.C., which does economic development assessment and strategic planning. "The most successful are those who understand each other's strengths and challenges."

Who Do You Know?

It's a focus that commercial real estate pros should consider, given that ED teams provide several benefits to keep deals moving along, including access to capital, grants, and incentives. They also are privy to market information and development initiatives that may not be widely disseminated or known. And more than anything, they have connections.

"Economic development people play a useful role," says Kevin Hodge, CCIM, a brokerage adviser with Rock Commercial Real Estate in York, Pa. "They are in a position where they have access to people who may not be ready to talk to real estate brokers." An economic developer himself for six years before becoming a broker, Hodge closed a \$15 million land deal last year that resulted in Dwight & Church constructing a \$150 million manufacturing facility in York County, Pa. It started with a tip from Pennsylvania's statewide ED organization, which sent it down to York County's team, Hodge says.

To make the most of ED opportunities, commercial real estate professionals need to be plugged into what's available for companies, says Henry H. Hanna, III, CCIM, SIOR, a senior adviser for Sperry Van Ness–Miller Commercial Real Estate in Salisbury, Md., who has worked with state and local ED officials. "We have learned the details of state financing programs: tax and training incentives that help us serve our clients and improve the value of our real estate service. We have been able to arrange up to 100 percent financing at very attractive rates working with the ED office."

Along with financing sources, ED connections provide access to information that can help close deals. "I have been able to access info that the general public can't, such as nurse and pharmacist licensing data for healthcare-related projects I have worked on," says Dan Adamski, CCIM, regional director for Jones Lang LaSalle in Pittsburgh. In addition, "The Pittsburgh Regional Alliance provides marketing support that helps to land projects: labor market analyses, benchmarking studies, access to community leaders and executives, and a comprehensive online database of available sites and buildings."

In many markets, brokers work with city, county, state, and regional organizations. A mix of privately and publicly funded organizations, some ED groups target industrial development, others direct downtown redevelopment or job creation. But at the local level, it's important to be on top of this information, says William E. Mears, CCIM, a broker with Coldwell Banker Commercial McGuire Mears & Associates in Janesville, Wis. "Not only do you need to know what [incentives] are available, you need to know who to send your client to."

Along with knowing the right people, you have to "understand the difference between economic development people and real estate people and respect those differences," Hodge says. "As I broker, I want direct contact with the client, but you can't always have that in these situations. And you can't know everything, so I respect that certain things are confidential."

Incentives Make the Deal

Mears' recent sale of a 16,000-square-foot industrial building illustrates just how important ED incentives are to closing real estate transactions. "What helped seal the deal was the tax increment financing. That provided the money to upgrade the sprinkler system," he says. "Without it, [the deal] might not have happened."

Like many cities, Janesville uses TIF money to provide incentives for buyers to renovate newly purchased properties. Last year, Mears' company sold a downtown office building to a private developer who is investing \$3.6 million to bring it to class A standards. The city is loaning the investor \$360,000 at 4.25 percent interest for 10 years to help finance the renovation. The city also is building a \$4.4 million parking garage near the building to serve that part of town. "Without TIF incentives, the renovation project would not occur and the building would continue to lose tenants and property value," said Doug Venable, Janesville's director of economic development, in a local newspaper interview.

But incentives aren't just a part of the deal in struggling Rust Belt cities like Janesville, which just lost its General Motors plant. In thriving Midland, Texas, where the unemployment rate is around 5 percent, about half the national average, John Elphick, CCIM, president of Southwest Commercial Investments in Midland, negotiated a similar deal. Basic Energy Services is spending about \$15 million to rehab three CBD office towers as its corporate headquarters. The resulting Permian Plaza will include a new public parking garage and create a mixed-use development with retail and restaurants in Midland's downtown. Basic received a \$2 million forgivable loan from the Midland Development Corp., and its application to obtain tax funding for part of its infrastructure costs is pending.

"Basic chose to rehab because the overall cost was probably less than half what they would have spent on a new facility and it was a chance to be a major contributor to the revitalization of downtown Midland," Elphick says. "They acquired the 182,000 sf of office plus land for the garage for less than \$25 per sf. They will be able to offer office space to third-party tenants beginning at \$16 psf, approximately half the rents required for new construction and just at the top end of the existing market for class A space."

Maintaining Current Employers

Midland's Basic deal reflects another changing aspect of economic development: an emphasis on retaining current employers. In return for the incentive package, Basic is staying in Midland instead of decamping to Houston. "Basic is obviously a major employer for Midland and we want to make sure it is a lucrative and viable place to have its corporate headquarters," said MDC Director Laura Roman. Part of the agreement is to retain 50 jobs.

Job retention factored into another deal Elphick negotiated. Lufkin Industries is consolidating its operations in Midland County to build an \$8.5 million, 57,000-sf industrial building on 22 acres of land in LeeCo Industrial Park. The development maintains 86 current jobs and increases the potential for future job expansion, Elphick says. In addition, the building will house a customer training facility that may attract more than 400 customers annually for two- to five-day training sessions, boosting the local economy through hotel stays, car rentals, and restaurant meals. Two cities — Midland and Odessa, Texas — gave the company a \$1 million forgivable loan, five-year tax abatements, and \$2 million in utility infrastructure. Along with the Lufkin facility, the county gains a new industrial park, equipped with city utilities, and the potential to attract other major companies.

"This was a complex situation requiring two competing cities and counties to cooperate," Elphick says. Lufkin needed city water and sewer, but the site was not within the city limits of either Midland or Odessa. It took about six months to work out the details.

"Lufkin could have moved to and consolidated in an existing tract in nearby Andrews County," Elphick adds. "The cooperation of the city of Odessa, the Odessa Development Corp., and Midland County allowed them to maintain their Midland/Odessa workforce and expand at the same time."

Meeting Business Needs

Resolving utility issues is often a big part of economic development projects, particularly those involving large industrial users. Hodge's deal "had extreme utility issues that took a ton of coordination," he says. The 1.1-million-sf laundry detergent manufacturing and distribution center required a water line extension that could carry a million gallons a day, as well as a sewer line extension, road reconstruction, and moving rail access on site. In addition, a 200-foot-wide power corridor bisecting the property had to be relocated.

"We used to say, 'What is the fire of the week?' that had to be put out," Hodge says. "With a deal this size there are a lot of issues and you have to be sure you can find the right person to solve the problem."

Another concern is the client's comfort level. "This was a big project for Dwight & Church and their people were mostly operations; they had never done development," Hodge says. "So you have to take extra measures." For example, the clients were worried about wireless interference from the power lines. "We knew after a couple of phone calls that there wasn't going to be a problem because they were at opposite ends of the wavelength," Hodge says. But he still brought in a consultant who drove around the site and provided various simulations.

Dwight & Church chose the York County site based on its location near highways and rail access, as well as \$3.25 million in funding for infrastructure improvements and tax exemptions at the local level. The plant will bring 300 new jobs to the area with the possibility for more with a planned expansion.

The Long Haul

As most commercial real professionals will attest, when ED incentives work, it is usually a win-win situation, bringing jobs that boost the local economy and creating an upward spiral. But some projects can drag on for years without taking hold. Wayne D'Amico, CCIM, president of Property Politics in Essex, Conn., helped put together a development

concept for Meriden, Conn., an aging manufacturing town, but after eight years, it is now hamstrung by state political wrangling that has failed so far to fund a flood control system — necessary before any development takes place.

"Market-driven economic development isn't always feasible in such situations, so you often end up working with volunteer organizations that dream big but are unconnected to market realities," D'Amico says. He transitioned from a volunteer role to a fee-based consultant providing feasibility studies. "Our job is to provide them with a reality list. When you do an analysis, you say, 'Here's where your strengths lie, this is what is going to be attractive and necessary to create base jobs.'"

D'Amico also has applied his experience to the private sector side, working with developers to determine how they can capitalize on ED incentives and tax abatements plans that are in place to stimulate development. "I am currently designing a tax incentive for a 96,000-sf office condominium project," he says. While it doesn't fit into current incentive plans, he has put together an abatement program that "satisfies our financial requirements and shows how it fits in the current incentive. ... Our challenge is to get the community and state to agree."

Top 5 Metros for Economic Development Projects

Based on 2008 data

Metros > 1 million, # of projects

Houston/Baytown/Sugar Land, Texas, 179

Dallas/Fort Worth/Arlington, Texas, 156

Chicago/Naperville/Joliet, Ill., 138

Cincinnati/Middletown, Ohio, 124

Detroit/Warren/Livonia, Mich., 108

Metros 200,000–1 million, # of projects

Dayton, Ohio, 41

Akron, Ohio, 39

Toledo, Ohio, 38

Allentown/Bethlehem/Easton, Pa., 29

Des Moines, Iowa, 28

Metros < 200,000, # of projects

Sioux City, Iowa, 20

Springfield, Ohio, 10

Danville, Va., 9

Decatur, Ala., 9

Florence, S.C., 9

Sara Drummond is managing editor of *Commercial Investment Real Estate*.

Click [here](#) for a listing of top U.S. economic development groups.

5 Ways to Profit from Economic Development Projects

Some economic development projects take a long time to come to fruition. But often they provide fee-based opportunities for commercial real estate professionals who understand the process and can identify the missing pieces. Here are a few ways to find your role in these projects.

1. Understand the concept's timeline and deal traction potential.

2. Thoroughly research the permitting process and property assemblage challenges.
3. CCIMs' financial feasibility and market analysis skill sets often are the missing components in projects driven by architects, planners, and engineers.
4. Join forces with a developer and secure his position as the preferred developer. Or figure out how to position the developer with key parcels in an assemblage.
5. Demand and fiscal impact analyses always are needed for these projects. They are integral components that are required to achieve any level of public funding.

—by Wayne D'Amico, CCIM, president of Property Politics in Essex, Conn.

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