ENVIRONMENT

New factors could push inner suburbs into golden age

High-density housing to find home in Taylor DDA

The City of Taylor is getting into the swing of the New Urbanist movement with a 74-condo project in its historic downtown district on Goddard Road, and other mature suburbs could soon see similar redevelopments as the dynamics of development changes.

Haggerty Commerce & Associates has received site plan approval for the redevelopment - much of it on the former site of a Farmer Jack's grocery store. The project effectively removes about 50,000 square feet from the city's somewhat bloated retail inventory. It is part of long-range plans to redevelop Goddard Road, which bisects the city into southern and northern sectors. It has benefited from new streetscape spending as well as land assemblage for new municipal facilities, including a fire station and courthouse.

Taylor has a number of other redevelopment opportunities around town, often in the form of old homes sitting on two, three and four-acre lots. "They were the old farm homes, and the subdivisions just grew around them. Some of them still have septic fields," said Frederick Zorn, Jr., director of economic development. Many of them qualify as brownfields, primarily as obsolete buildings, and developers could benefit from tax credits if they developed them.

That story is likely to be repeated again and again for close-in, mature suburbs. An entire range of factors are now encouraging development in places like Dearborn, Warren, Redford, and Wyandotte. Old obsolete retail may be coming down. Old blighted homes may face demolition. These communities often benefit from active local redevelopment efforts that know the state's brownfield regulations inside and out, and are ready to deploy incentives to make projects as feasible in older areas as in the newer townships. It doesn't hurt that infill redevelopment is emerging as a priority in the Granholm administration in Lansing.

"I would say the inner ring suburbs have got the most inventory to deal with, and probably they are probably in a better position to redevelop than some of the inner urban areas. And they seem to move a little faster than some of the really urban areas, " said Nicholas Maloof , an attorney and president of the newly formed Associated Evironmental Services L.L.C. "The latter have a process, and the process take whatever time it takes," he said, likening the process to turning a battleship. "It's not a criticism. That is just how it is."

The inner suburbs, as locations for redeveloplment, should also make sense to developers, he said. Many communities are aggressively using tax increment financing to cover remediation and demolition costs. TIF incentives capture future property taxes on improved properties to reimburse such expenses. In many cases, Single Business Tax credits could be available to developers or companies that will eventually operate on the remediated land or in the reconstructed buildings. If the city is considered a Core Community by the state, the incentives might apply to property considered functionally obsolete, not just contaminated.

But, Maloof said, some developers are unaware of the brownfield incentives, and many more consider them something that could slow their site plan approvals and other activities. Often, he says, they could diminish these disadvantages by simply planning ahead. "I think they suffer from the misconception that it can take a long period of time, perhaps years, to go through the process," he said. "I think that this is why there is not the utilization of those funds that there could be. Many times, the perceived benefit is not greater than the perceived costs. If they are going to get back a couple hundred thousand dollars, their holding costs could be more than that."

"I think it is a multifaceted issue here," he said. "I think sometimes they run the numbers, and they see they are paying interest on a multimillion-dollar loan for a couple months, and they are getting back $100,000, they ask themselves, where is my benefit?"

"The best case scenario is that they know about brownfield incentives, and they make their decision based on what is good for them."

Maloof recalls the redevelopment of a gas station and several stores into a retail drug store chain. The development did without possible recovery of demolition costs (possible when the project is in a designated Core Community and is deemed functionally obsolescent) and SBT credits. "The project could have recouped more than a quarter million dollars, possibly even a half million dollars, had it turned to brownfield incentives. "They didn't do it because their lease agreement was such that they didn't have the time. But if someone had looked at that ahead of time, and said, "Gee, we may be able to access some of these things. Let's give ourselves enough time, and explain that to the tenant. Because the tenant could have picked up the SBT tax credits."

"That was one example where, if you give yourself and extra sixty or ninety days, you could have gotten the applications together, and submitted applications for the reimbursement of those costs."

Maloof recalls one case where a national retailer was able to get about $2.4 million in TIF and SBT, out of about $14 million. "It was a pretty good return on investment."

A recently developed distribution center is another example. A firm was developing a former illegal landfill and paid the remediation costs out of its pocket - about $600,000 or $700,000. "They could have

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recouped that cost, plus have gotten an SBT credit for the infrastructure, and the equipment and machinery that was put into place," Maloof said.

Staying ahead of the process requires having a good team in place. Its members may range from accountants and attorneys to brownfield consultants and brokers. "No one person can do everything," Maloof said. By incorporating the potential for brownfield incentives right from the start, they stand a higher chance of realizing the savings. It is not unusual to find the amount of recovered remediation or demolition costs to reach $250,000 or $500,000.

"Here is my experience. You have to look at the big picture first of all. You have to look at everything the development comprises. Not just the building, but the site, the infrastructure, the utilities, environmental issues, municipal political climates, funding mechanism, and if you have someone who can look at everything and identify those issues and opportunities, the developer can then better take advantage of some of the brownfield incentives, and how to package things appropriately with their consultant."

In the current state budget environment, however, outright grants for remediation may be hard to come by. "The issue with the grants is that there has been much publicity with so many problems with grants at the state level, and that the money has been transferred to take care of other things. The grants may be falling by the wayside. Right now, people are focusing on TIF and SBT, and TIF is the main vehicle people are using at this point, to recoup costs going into a brownfield development," he said.

Selecting the right community is important, too. "There are some communities that are fighting development everyway they can, and if they don't have to give an incentive to a developer, they are not going to. A community like Taylor, though, is a shining example of open-mindedness about new development. It basically comes down to their mentality - are they pro- or anti-development," he said. If they are pro-development, they make it their business to deploy brownfield incentives whenever they can.

In Taylor, projects now in the pipeline will bring the city's total brownfield investment to $131 million.

On Goddard Road in Taylor, the condos will start as low as about $150,000 and average the $170,000 to $180,000, and will likely house residents earning more than the City of Taylor's average residential income. The elimination of excess retail space plus the expected infusion of new, higher income households makes the new project doubly valuable to the city, said Zorn.

The city gained control of the land and cleared the property over the last year. While it purchased the property for $1.4 million, it sold the land to the Haggerty group for $900,000 - a price that, in effect, matches the per-unit land price for other residential developments.

That price, according to Zorn, is $10,000 in land costs per unit. That roughly works out to the equivalent of 2.5 to three homes per acre at $35,000 an acre - a common ratio in Taylor and nearby suburbs.

Zorn said it was the city's recent residential growth that made the location attractive for the new project. The city saw most of its residential growth in the 1950s and 1960s, and saw no growth at all in the 1980s and much of the 1990s. But then low interest rates and a revival of interest in higher densities spurred interest in townhomes. "People are getting tired of sprawl," Zorn said. The city will see 250 residential construction permits this year - a number typically found in newer communities, he said.

Lending

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And the site approval process seems to be getting longer and longer.

"Apartment lending is super strong right now," says Stevens. "Anybody who can refinance, anybody who doesn't have a severe pre-payment penalty — and in some circumstances people with large pre-payment penalties — should refinance."

Stevens gives an example of a recent transaction where the client had to pay a large pre-payment penalty. "In the short term there was that penalty, but that penalty was absorbed in less than two years."

About 90 percent of Apartment Capital's business is refinancing. Lie says the main reason is the lack of supply of available apartments for acquisition. Lie says they would be even busier if many owners hadn't gotten locked into commercial loans with heavy pre-payment penalties. "The ones who can are definitely taking advantage," says Lie who describes a recent acquisition loan he closed with a 10-year fixed mortgage rate of 5.74 percent.

With the interest rates and other factors under control, business is good for apartment lending-for now. Economic conditions have slowed the apartment market. Renters are finding it easier to buy their own homes now with mortgage rates at an all-time low. And the new would-be renters-young adults-are staying home longer in the face of job uncertainties.

So what happens when and if the flurry of refinance activity ebbs? Despite the constraints, Lie believes there will be new product on the market. "I go with the flow and my feeling is that more product is going to be available in the near future, and hopefully we can help some clients do some acquisition loans as well." In the meantime, Lie has enough refinance activity to keep him busy for some time.

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Township

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The township's recently commissioned study on that corridor did basically the same kind of analysis that a developer would do, Kwiatkowski said.

South of the freeway, there is also a large strip center on Grove Street. To the west, Huron Avenue is the up and coming sector, with a new Kroger store and the Paint Creek Crossing shopping center, near the Washtenaw Business Park. Neighborhood and community-oriented retail development is expected to expand in the township's southern end, but the scale is likely to be small. It will mostly be designed to make residents' lives easier and reduce the number of trips they make to large retail centers on Washtenaw Avenue and elsewhere.

Koll

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In Koll Corporate Center, General Motors Acceptance Corporation (GMAC) occupies 60,034 square feet. The building also serves as the corporate headquarters of Delmia Corp., which occupies 42,906 square feet. Delmia is a wholly owned subsidiary of Dassault Systemes, S.A., a provider of software applications and services, with a net worth of more than $380 million.

The average remaining term on the GMAC and Delmia leases is 6.5 years, not far off Wells' normal target of seven to 12 years.

"This purchase is a perfect alignment with the Wells REIT's strategy to purchase Class-A office and industrial properties leased long term to highly creditworthy tenants," said Wells Chief Investment Officer David Steinwedell in a prepared statement. "For us, it's all about the quality of the tenant plus the quality of the real estate. That's what you find at Koll Corporate Center and that's what produces a solid return for our investors."

In 2002, Wells Real Estate Funds was the largest purchaser of Class-A office buildings in the United States according to New York-based Real Capital Analytics, completing 30 transactions totaling more than $1.4 billion. Wells is targeting 2003 acquisitions of $2.5 billion.

Wells has three investment products: the Wells REIT, the Wells S&P REIT Index Fund, and the Wells limited partnerships. Besides buying existing Class-A office and industrial properties, Wells also handles build-to-suits and sale-leasebacks. One of its recent sale-leasebacks involved an Dana Corp. industrial facility near Kalamazoo.