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Commercial Real Estate: Why cities willing to work with developers have an edge

Developer's Perspective

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The success or failure of any real estate development largely depends on a municipality and a developer working together to see a project through.

Both sides need each other in order to achieve success, and both sides must make meaningful contributions to enable any project to even get out of the ground.

Developers bring funding and the resources to attract commercial and residential tenants to the new space. Municipalities have the power to make and enforce the policies that affect new developments. Cities also have the power to issue permits, approve designs and levy impact fees on each particular development.

Far too often the perception is that these two parties sit on opposite sides of the table, engaged in a never-ending struggle to see who can get the best of whom. The reality is that both parties are interested in the same outcome: a successful, completed project that adds vibrancy and economic activity to a community.

In order to maintain focus on the common goals shared by developers and cities during the planning phase, both sides need to maintain flexibility and stay in close communication with each other.

From a developer's perspective, whether or not a project pencils out is a primary consideration. In many cases, the go/no go decision can come down to a tenth of a percent, so even little adjustments can make a big difference.

Today, the cities with the most successful developments are those where the elected officials and planning staff are able to work with developers in a flexible way to achieve mutual goals — whether that concerns discussions over design standards, code requirements or impact fees.

Because capital markets have dried up for many would-be developers, being flexible and remaining in close communication with each other are even more important for developers and cities today than they were during the real estate boom years. This is because there is more competition for fewer development dollars.

For the developers who are still able to get projects off the ground, they are better able today to pick and choose where they want to do business than when capital was more readily available. For any developer, partnering with a city that is easy to work with and clear about its needs is a big draw.

If that is not the case in any given municipality, the developer will most likely take his money elsewhere.

Despite the prevalence of both cities and developers envisioning master planned commercial developments, the reality is that these types of projects rarely work when built all at once and in rigid accordance with the initial plan.

It takes time for tenants and shoppers to populate and get used to any new market. Looking to University Village as an example, it's the type of shopping center just about every city wants to emulate, but it began as a typical neighborhood center.

As the demand in the area grew, so did the shopping center. And this organic type of growth was enabled by a good working relationship between the developer and the city.

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