

Downtown Living is on the Rise

Robert S. Goldsmith

Seniors' Housing News

Summer 2002

Author - Robert S. Goldsmith

A version of this article appeared in the Summer 2002 issue of Seniors' Housing News and the February 2003 issue of New Jersey Municipalities magazine.

Cities and towns have been the center of commerce, population and civilization for thousands of years. There is a revived and strong focus on development and redevelopment of cities and towns.

It is only the cities and towns of America that offer the unique and fulfilling "sense of place" and community that enriches the lives of all. With the maturing of the baby boom generation that largely grew up in cities and towns, there is a growing nostalgia for downtowns. That nostalgia and desire for community has increased since the tragic events of September 11, 2001.

Given these trends and realities, there are distinct and significant advantages that come with development and redevelopment in cities and towns. This article will focus on some of those advantages and present a case study of a major redevelopment partnership in Morristown.

Open any newspaper on any given day and one finds as a typical headline "Unanimous Vote Halts Housing Plan", "Judge Lets Town Block Farm Sale to Big Developer" and "Preservationists Fight to Save Barns". Those same newspapers have these headlines "The Renaissance of Urban Redevelopment", "Town Centers Add Appeal" and "City Living Scores with Homebuyers." In the redevelopment context, the municipality is often anxious to be a partner, not an opponent. This is one of the most appealing aspects of redevelopment. There are many more.

More often than not, cities and towns or centers, as they are often called, have existing infrastructure of water, sanitary sewers and utilities. Although sometimes improvements or upgrades are required, given the age of such systems, it is rare to find a center where infrastructure is not available.

New Jersey has redevelopment laws that provide flexibility for a negotiated agreement for redevelopment. Generally, redevelopment is not subject to stringent public bidding requirements. Furthermore, redevelopment generally embraces urban type development such as build-out to property lines, higher density, and mixed use projects. Redevelopment laws usually also permit PILOT's (payments in lieu of taxes), and provide for eminent domain for property acquisition. In addition to PILOT's, federal and state subsidies, or low cost loans are often available to support market rate housing. In New Jersey, the Office of Smart Growth and the Council on Smart Growth are developing programs and funding to provide additional support and incentives for Smart Growth.

Published Articles (Cont.)

Downtowns are ripe for mixed use development, that is, development that often includes parking, office, retail, commercial and residential use in one project. A significant benefit of mixed use development is the efficiencies that come with shared parking.

Shared parking has two elements, both reduce demand on parking. The first is the dove-tail effect, best demonstrated with a comparison of residential and office parking demands. Although downtown development typically reduces the need for cars, most people still commute to work by automobile. Thus, residents in downtowns typically need parking from 7:00 in the evening to 7:00 or 8:00 in the morning. Office workers driving into downtowns typically need parking from 8:00 in the morning until 6:00 or 7:00 in the evening.

In Morristown, for example, a parking facility of 275 spaces supports the Chancery Square Project consisting of 131 residential units which use approximately 175 parking spaces at night and only some 45 spaces during the day. The same parking facility also provides some 255 monthly parking spaces for office and retail use and there are routinely extra spaces available even at the peak hours of 11:00 A.M. to 1:00 P. M.

In downtowns, with a need for 3 spaces per thousand square feet of office or retail, those 235 spaces support nearly 80,000 square feet of office and retail. In the absence of a downtown shared parking scenario, the residential demand would probably be more than 200 spaces. The 80,000 square feet of retail/office space would require some 400 parking spaces at 5 per 1000. Given a modest cost of \$10,000 per space, the 275 Morristown parking spaces costs some \$2.75 million. In the other scenario, the 600 spaces would cost some \$6 million. Besides the capital cost reduction, operations and maintenance is similarly reduced.

The other aspect of shared parking is a function of the nature of downtowns. Downtowns are mixed use. They blend office, retail, restaurant, culture and housing. People traveling to town for work or pleasure often make one trip, park once, but can work, shop, dine, and see a movie or attend a cultural event. Thus, fewer trips are generated and less parking is required. In downtowns, 3 spaces per 1,000 often meets demand where 5 spaces per 1,000 might otherwise be required.

Mixed use development offers economic market variety for builders interested in the long-term investment aspect of development, and has the economic strength and staying power similar to an investor's diversified portfolio. That is, return on investment is better sustained through up and down turns in the real estate market when the project has a balance of retail, office and housing.

Furthermore, the trend toward downtown redevelopment often produces a return on investment for developers beyond their expectations. Thus, for example, in Morristown, the 131 apartment Chancery Square Project of the Applied Companies of Hoboken developed the first market rate apartments in Morristown in more than 30 years. The pro forma projected rents in the \$1,400 to \$1,700 range for one and two bedroom apartments. The project opened in June 1998 and was fully occupied within two months. Four years later the rents are in the \$2,000 to \$3,000 range depending on floor and size.

Published Articles (Cont.)

The urban market offers particularly appealing opportunities to both young urban professionals and the growing population of baby boom empty nesters. Indeed, some one-third of Chancery Square is occupied by empty nesters, the rest are generally young urban professionals many of whom have roommates to share the rent.

Downtowns offer a sense of place and community which cannot be overlooked. There is a charm and attractiveness to centers. Indeed, I remember visiting a town some six years ago and telling my daughter, Julie, then thirteen, and my son, Jeremy, then ten, over and over what a charming town it was and promised to take them there. They simply poo-hooed it until we got there. We walked the streets of the town, sat down on a bench in a splendid neighborhood and I asked them what they thought. They smiled and they said "charming". In a way that is the essence of downtowns. And while it is nostalgic for me, it is not necessarily nostalgic for my children. But, there is that same appealing sense of place.

Turning to more tangible aspects, downtown housing offers proximity and convenience, to retail, office, restaurants, the arts, and transit. Housing in downtowns often presents a shorter commute or access to mass transit in congested areas where one would otherwise fight with the traffic on a daily basis. Downtowns offer a convenient walk to work, a bike ride to work, or given proximity to mass transit, the opportunity to read a newspaper, a book, chat, or simply sleep on a train or bus.

Living in a downtown often reduces the need for an automobile, thus some families may choose not to have a car or to have one car instead of two, also reducing the need for parking. While certainly cars are the reality, downtowns offer an alternative.

For business people, being in a town is one of the best ways to network. On any given day, if I walk in Morristown, I will see a planner, another attorney, a public official, a client, or someone else, who may provide a business opportunity, educate me on something of importance or just engage in pleasant conversation.

Downtown redevelopment often offers the possibility of significant infrastructure contribution from public bodies in a partnership context which would rarely be available outside of the center. In Morristown, the Morristown Parking

Authority with the support of the Mayor, the Special Improvement District (the "Morristown Partnership") and the governing body, constructed a first class, user-friendly, aesthetically pleasing parking garage supported by user fees and costing some \$9 million. That parking project also relies on ground rent payments from the Applied Companies for the land on which the 131 apartments and 11,000 square feet of office was constructed.

The garage was designed and engineered in cooperation with the owners of the former Macy's building, which had been vacated on June 1, 1993, Morristown Green, LLC, headed by David Brown and Eli Ungar. Morristown Green gave two parcels of land to the Parking Authority. One facilitated Chancery Square; the other expanded the footprint of the garage from 2 bays to 3 bays, a much more efficient and comfortable layout. In return, the Parking Authority provided two direct connections between the garage and the

Published Articles (Cont.)

second and third floor of the department store building. Notably, with parking available and easily accessible, the building re-opened on April 30, 2002 as Century 21 Department Store, which occupies the entire 135,000 square foot building. The improvements and renovations to the Century 21 building cost some \$15 million.

The parking garage also leveraged a \$25 million project, Morristown Plaza (149 market rate apartments and 14,000 square feet of retail space) as well as facade improvements, structural renovations, and the addition of one floor to the office building adjacent to the Century 21 building, with a total value of some \$4 million, and also supported the construction of a new bank building.

In all likelihood, absent the parking garage, the Morristown Plaza apartments would not have been constructed, as parking would have likely added a capital cost for underground parking of some \$4 to \$5 million (as underground parking is substantially more expensive than above-ground parking, besides the operations and maintenance expenses on a long-term basis). Without the parking garage, Century 21 would not have leased the vacant building (with its \$15 million improvements), the \$4 million in improvements to the 10 Park Place building next door would not have been undertaken and the new bank building would have been questionable. The \$9 million public investment generated some \$63 million in private investment.

There are tremendous opportunities for partnerships in the redevelopment of cities and towns. There is growing state support and increasing incentives for such redevelopment. In addition, in many instances, municipalities will cooperate, if not partner, to facilitate redevelopment; a circumstance far different from the opposition so often experienced in greenfields development.