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ED Now Feature: Honey, I Shrunk the RFP! Enter the Small-Scale Developer

tags: neighborhood development, real estate development, small-scale developers

Eli Dile on Monday, August 8, 2016 at 9:01:00 am

By Eli Dile

Last year, Ryan Terry did something foolish. He fell in love.

Not with a person, but with a piece of property – something every developer will tell you not to do. Then again, Terry isn't your typical developer. He doesn't work for a high-profile firm, but he is a former Marine, and his father is pretty handy. Last year, the father-and-son duo asked city officials in their hometown of Bryan, Texas – next to College Station and Texas A&M University – about some vacant downtown parcels.

"They said if you're really interested you should submit for the RFP. So we threw something together, not expecting anything to come of it." Terry recalled. "Two weeks later I got a call from the city and they said, 'Congratulations, you won.' And I said, 'Won what?'"

"And all of a sudden we were developers."

The Terrys are about to break ground on a multi-family residential complex in downtown Bryan. They were able to overcome the high barrier of entry to the real estate game with a little inspiration from the

Incremental Development Alliance (IDA), which trains real estate novices around the country how to plan, finance, and develop small-scale projects. Their goal is to grow local economies from the inside out by getting locals to invest, literally, in their neighborhoods. The alliance is slowly building an army of small developers both to make real estate development more accessible and to support local businesses.

Small world

The alliance came together through the meeting of two Andersons (no relation) who were doing similar work.

Monte Anderson has been developing small projects in his hometown of Duncanville, Texas, for 25 years – motivated less by profit than the fact that nobody else was investing there.

"I was doing this kind of work out of desperation," Anderson said. "Southern Dallas County is not the most affluent side of the city. I was desperate to get any kind of retail or decent new residential development."

He didn't have much cash on hand, so he'd sell his properties to local owner-operators and entrepreneurs who needed a place to set up shop. The model didn't deliver huge profits, but it had other benefits.

"Eventually I said to myself, 'Hey, this is a pretty good model. This is helping middle-class people build wealth and own real estate,'" Anderson said.



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Did You Know?

City planning used to be an [Olympic sport](#) – along with arts, literature, and architecture – between 1912 and 1948 (Curbed).

What's Hot at IEDC

Donations Requested for Diane Lupke Scholarship Silent Auction

IEDC will host a silent auction during our Annual Conference to benefit the Diane Lupke Scholarship Fund, and we need your donations! The scholarship fund allows economic developers in distressed communities to attend IEDC training courses free of charge. [Complete](#)

"The big developer can't build these things because there's not enough management or brokerage fees," he added. "But the butcher, the baker, and the candlestick-makers owning their own shops with two apartments on the floor above is a good deal."

The other Anderson is John, who experienced first-hand the risks inherent to large projects when the Great Recession torpedoed a 200-acre residential development he was working on in California. This experience taught him the wisdom of thinking small, something he took to heart while serving on the board of a community development organization.

"Our thought was, let's do small things that in aggregate turn into a better neighborhood – with the project in question being the neighborhood, not the individual buildings," John Anderson said.

Training a small army

The alliance is just one year old, but so far it has held 13 small-developer bootcamps around the country, with plans to scale up its offerings.

"We want to create 1,000 small developers in every small town and every forgotten place in America," Monte Anderson said.

Their first bootcamp was in Buffalo, New York, where they expected a turnout of 10 but had more than 50 attendees show up. The standard class begins Friday evening and concludes after a 10-hour crash course on Saturday that covers financing, zoning and codes, construction, market feasibility, how to form an LLC and more. The bootcamps also include instruction on how to do a basic pro forma and other hands-on group exercises meant to simulate the development process.

The students are diverse, but the Andersons have found that the ideal small developers are architects, builders, property managers, and planners. They also get interest from city employees looking to do development on the side, and neighborhood activists who want to encourage development that respects the wants and needs of locals. Many come away from the classes with new partnerships. Ultimately, the characteristics unifying small developers are grit and determination.

"The foundation of the whole enterprise is hustle. If you have some hustle, then you can acquire relationships and know-how," Monte Anderson said.

For simplicity's sake, IDA stresses the importance for a rookie's first project to be done "by right," not requiring special permission or a zoning variance. These projects should be the equivalent of the "basic black dress or blue blazer building," John Anderson notes. Students also are encouraged not to get too big, too fast.

"City codes and policies are not set up to help small projects."

Monte Anderson likens a small developer's project area to a farm – and just like a farmer, small-scale development requires careful attention to one's soil. "Your competitive advantage should be your intimate knowledge of that place," Monte Anderson said.

Financiers and regulators: Let's get small

Ryan Terry considers himself lucky to be developing in Bryan, where city officials have cut down on red tape. His property didn't have parking requirements, and there weren't any issues with mixing uses. But that's not true of every city, as regulations often thwart small developments before they can even happen.

"City codes and policies are not set up to help small projects," Monte Anderson noted.

Terry remarked that his negotiations with the city started off more complicated than necessary.



"They were wanting a lot of clawbacks worked into the deal," Terry said. "I said, 'I don't want tax abatements, I don't want a TIF. I just want you to sell me the property for a set price, and here's what we'll build.' It was a very straightforward transaction, and I think they appreciated that."

IDA also would like to see more local governments support small developers through loan guarantees, as access to

[this form](#) (PDF) and submit an item that represents your community no later than Friday, September 9.

Annual Conference Volunteer Service Project

Attendees of IEDC's Annual Conference are invited to [volunteer for restoration efforts](#) in a Cleveland Metropark watershed on Saturday, Sept. 24. The event is free, but you must sign up when registering for the conference. If you already registered but still want to join, email Cherricka Gordon at cgordon@iedconline.org.

Resources

Certify.sba.gov

This [new website](#) from the Small Business Administration streamlines the process for women-owned small businesses seeking to contract with the federal government.

capital remains their biggest hurdle. IDA coaches its students on how to speak to bankers and present themselves professionally, encouraging them to apply at community banks first. And much like they did with their own projects, they encourage developers to seek smaller loans from family and friends.

Small bets are smart bets

The Andersons see small development as another tool in the economic development tool box, arguing that big projects and small development don't have to be mutually exclusive. Monte Anderson points out that small developments can offer "quick successes for small risks, versus the bigger projects that get embroiled in politics."

Another selling point is a higher return on tax revenues – at least when square feet is your common denominator.

"A Walmart is typically on the tax rolls for maybe \$450,000 per acre," said Monte Anderson. "My little building on the main street of Duncanville is on the tax rolls for \$7.2 million per acre. It's a smaller footprint, so you have to build a bunch of them, but it's so much easier, and you don't have to give away money" to get it built.

But it is distressed neighborhoods and rural areas that IDA sees as having the most to gain from small development. "These are places where Starbucks is not going to go, and this is where small developers can really come into play," John Anderson said.

For these communities, it may mean having frank conversations about business as usual.

"If you're in a neighborhood that's in tough shape or a suburban town that's kind of sliding, there's no special developer from out of town who's going to come and fix things," said John Anderson. "You have to develop a parallel infrastructure for small operators."

"A lot of places don't have the competitive advantage for recruiting a large operation," he continued. "This is a way to cultivate enough of a place so that now it's attractive to people. It's easier to make happen in small pieces than big chunks. And it's more resilient."

"One hundred years ago, this is how we built cities," Monte Anderson pointed out. "One block at a time."

For more information about the Incremental Development Alliance, visit <http://www.incrementaldevelopment.org/>

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