

Incremental Development Alliance
Memo of Findings and Observations
On-Site Visit - September 29-30, 2016

Based on the visit by Jim Kumon, Executive Director of the Incremental Development Alliance, the following four subject areas were explored to better understand how small development and small scale real estate developers could be supported in Corpus Christi's TIRZ #3. This memo is structured in a question and answer format to the scope of work in order to most directly organize the information around the four aspects.

A Quick Check on Regulations and Geography

- Are there basic rules inside typical zoning, parking, stormwater and landscaping sections of city code or common private sector practice that make small lot development physically impossible or create artificial hardship?

BASE ZONING AND LAND VALUES

The TIRZ #3 is mainly comprised of commercial zoning, particularly CBD, CI and CR-1. When it comes to zoning that allows small to medium scale development (residential, commercial or mixed use), there are few impediments because there are largely no limits to residential unit density or building height, or setbacks that would limit building footprints. However, this open-endedness has created a different problem - widespread over speculation of the value of land. **Because any parcel of land in the CBD could functionally be a tower, the going rate for a parcel is priced accordingly.** Many small parcels of land have been consolidated over time so the high price plus parcels that may be larger than needed for development create a situation where modest buildings are difficult to purchase and finance. The price of land purchase is the single most important number in a real estate pro forma. No amount of financial acrobatics can solve for when the land cost is too high.

Imposing a height limit around 6-10 stories on targeted streets like Chaparral or Mesquite where there is existing small scale fabric might help quell this market force. There are *so many surface parking lots* that it would take 1-2 decades of absorption before the market could bear building buildings any taller across the entirety of the downtown. It would also prevent one mega project from sucking in all the absorption of the residential or office market over a multi-year period, thereby damaging the rents due to an operator underselling to fill its building. Many medium sized buildings owned by locals creates healthy competition and a stable market of equals. This is preferable to a 'too big to fail situation' where the public sector may be asked to bailout an unfinished real estate project that got in over its head with support from money outside the community.

PARKING

It was encouraging to hear that there is a parking management study in the works to help measure existing parking supply and distribution. This data could be utilized to prevent additional unnecessary parking be incorporated into new projects which would further inflate construction costs and stress rents that could be achieved. In short, creating more project pro formas that don't pencil. If people spending money is truly what the downtown needs, a litmus test for whether or not Corpus Christi is on the right track is measuring the amounts of square feet dedicated to permanent residential, hotels and short term housing, office/retail and automobile storage. A management study will help uncover where parking is over or undersupplied in particular subareas and create a strategy for how to balance daily and weekly swings in demand. The residential parking maximums seen in the Mixed Use Overlay District are helpful as they could help cap irrational behavior by the private sector that dilutes the value of multi-story buildings to the municipal tax base.

MIXED USE ZONING OVERLAY

Speaking of the Mixed Use Overlay - It is a well intended document which is truly trying to allow financially productive land use again where the main zoning code does not allow for mixed-uses. Unfortunately, parts of it are a bit bloated and overly restrictive. It tries to account for every possible scenario that could go wrong and head it off, instead of depicting what the healthy patient of a good building would look like (in words that is, not the pictures - which are lovely, but legally unenforceable). If the authors had been forced to use it in order to create a development project themselves, they may have found ways to make it less onerous while still achieving the same goals.

Due to its one-size-fits-all attempt to allow mixed use buildings in practically any area of the city, the results obscure the good things it allows to encourage small lot development in compact neighborhoods. I believe that the Mixed Use Overlay District would be more widely used and successful if it was limited to a finite geographic area of the city and then streamlined/calibrated to the character of those neighborhoods. It could be a powerful tool to assist CN, ON and RM zoning to provide more flexibility in the key neighborhoods near downtown.

- Are there zoning classifications or geographic areas that have natural attributes conducive to small development?

The TIRZ has three main districts, SEA District, Marina Arts and Bayshore Park. Each has adjacent areas that are outside the TIRZ boundary which are integral parts to the proper functioning of that zone. From a planning and economics perspective, the areas outside the zone need to be accounted for in improving the health of the properties inside the zone.

Bayshore Park and the neighborhood to its west is perhaps the most primed for small scale development to be successful. There are many small lots, some vastly undervalued, that have fairly easy upside to realize on a small project. The proximity of the hospital provides an economic driver that would support more robust development around it. However, the zoning in that area is very fragmented between 4-5 different commercial and residential zones in small clusters of lots. There are blocks with 3 different zones on them. As a temporary measure, a refined Mixed Use Overlay could help tie together these issues and enable a more consistently reliable outcome. As there are plans to expand the hospital campus, zoning classifications that allowed a range of buildings with different height and massing would ease transitions into the surrounding blocks with less intensive form.

The **Marina Arts District** and its Uptown counterpart properties in TIRZ suffer from under-utilization described in the first section. There are several major public realm investments going on in the area that do not have close coordination with how private property values will increase accordingly. The TIRZ incentives are somewhat targeted at filling that short term gap. Chapparral Street is the gem of the downtown and could be very vital. It has lost a critical mass of activity, however, and so incubating and assisting new entrepreneurs to be tenants and building owners is the most economically sustainable path to restoring that nucleus. There are just a handful of pre-WWII buildings remaining and they are guardians of the architectural character of Corpus Christi. Without a robust enforcement of rules to retard the deterioration of buildings and procedures that only allow demolition once a building permit for a replacement is filled, the tax base of the district will continue to crumble. The City may need to consolidate its stance to a Vacant Building ordinance, which explicitly lays out how the city will act if regular enforcement is ignored or slow to respond. This could protect buildings from deteriorating to the point of no return and could also include provisions in this geographic area that discuss how the city does not grant demolition permits without a replacement.

Some spot analysis of buildings for sale along Chaparral turned up a few properties for recently sale at 2-3 times what they are worth. Which is to say, the buildings are vastly overpriced and thus not moving towards being sold due to unreasonable expectations. The city needs to be strident in its influence to encourage absentee landlords to redevelop or sell their properties when they are otherwise letting them run down. Small developers with the capacity to rehabilitate or build new are largely boxed out of the market, currently. Some potential small projects are delaying start to wait for a big project (read 100 or so units) to prove the market. This is unhealthy and should be the other way around. Small projects should prove the market at smaller increments of risk and can do so without large public subsidy due to their scale. It is possible the larger projects are struggling because they are financially fragile deals. Further study of this matter is warranted.

The **SEA District** as it is comprised currently does not have much potential for small development. However, the relocation of the US 181 Bridge and associated I-37 spur is a once in a century opportunity to repair the economic and financial damage caused to the city tax base through removal and degradation of valuable downtown real estate. Re-establishing the small block structures inside the district from Leopard Street to the south, West Broadway or Resaca Street to the North, Ayers Park to the west and North/Upper Broadway to the east, could reactivate a massive amount of private property into the tax base. Having a concise strategy on how to achieve this while the remaining years of planning are completed for the roll back of the freeway ROW is critical.

The properties inside the TIRZ at Broadway and Buffalo vicinity would become the gateway properties to this newly reinvigorated neighborhood, which is why it is in the interest of the TIRZ to guide this development. The infrastructure necessary to reconnect the street grid and make the shreds of private property vacated by freeway valuable again are considerable - and half of that affected area is already inside the TIRZ. It would make sense for the TIRZ to play a role in unlocking this value in a strategic and intentional way.

There is a movement in Dallas to perform a similar thought process for I-345, which is a viaduct that has reached the end of its useful life and divides two productive areas east of Downtown. You can read more about it at <http://anewdallas.com/economics.html> - The study of developable and reinvigorated land the freeway removal could provide is incredible, especially inside the TIRZ. I will put you in touch with Patrick Kennedy who has helped lead that conversation. Bringing him to speak in Corpus Christi would be highly recommended.

Review of new City Incentive programs and Eye Test for Small Development Sites

- A review of these City incentive programs will look at how well they serve smaller projects and get a thumbnail sketch of their financial impact.

There are four development incentives in the TIRZ #3. I think they all play a useful role in developments large and small. The inability to use up the allotment of funds for each incentive is rooted in the lack of private sector developers, brokers and land owners motivated and competent to construct a real estate deal. Because the issue seems to be human capital and not resources or property availability, collaboration with the Small Business Development Center at the Del Mar Center for Economic Development, Downtown Management District and other educational resources may be the starting point to incubating new real estate professionals. There probably is enough pent up demand for building rehabilitation and tenant improvement to support 2-4 small developers just in the Marina Arts district alone. The level of complexity in these projects is high though and having a district outside of downtown where simpler projects can be completed first may be a necessary step to creating a whole cohort of individuals capable of these projects. Additional funding for incentives probably needs to be pointed at technical assistance more than financial assistance to projects. That effort may uncover where there are additional pain points across many projects that would warrant a more specific incentive to cure.

- A tour and review of 2-3 key city owned properties to discuss how to best utilize the site, create a supportive environment around the project once a private sector buyer is found and what incentives may be the most helpful to completing the transaction.

We toured the Montgomery Ward site and the building of Urbana, a currently under construction smaller project that applied for TIRZ incentive funds under the Chaparral Street Property Improvement Program.

For Montgomery Ward, there is a very palpable amount of risk to the project, despite the incentives provided by the city to ease the leap of faith required. More due diligence work needs to be done by the City to both better daylight the structural condition of the building as well as prove its viability in the market place alongside many other nearby vacant buildings. There is neither the appetite for risk nor the expertise in historic rehab present in the Corpus Christi real estate community to expect there to be any willing responders to the property sale in the foreseeable future. Nobody is coming from another city in Texas to save this building, even though it is worthy of such a treatment. **If the city could assist in a way that would allow a small developer to activate and prove out the building's rents on a floor by floor basis, that might be the best near term strategy to incubate a future buyer.**

Urbana is classic case of a local entrepreneur doing the best they can with the resources they have. The owner owns a successful food business and is leveraging that asset to be a pioneer on the next chapter of what Chaparral Street will be. This is rare to find. Everything that can be done to encourage and backstop this owner should be done. Their success is the only way more like them can be attracted. A few more could perhaps be convinced to join them with additional technical assistance to help him find the best and highest use for the many existing, vacant main street buildings. This assistance touches a range of expertise from architectural and engineering code analysis, to financial pro forma, property management, business planning/incubation and tenant management.

Discuss cultivating a cohort of Small Developers from Corpus Christi dedicated to Corpus Christi

- How can it both leverage proximity to educational resources in Houston and San Antonio while not having to constantly import knowledge or lease capacity from the development communities in those other regions?
- Discuss what educational resources the Incremental Development Alliance has provided other major cities to identify and leverage its business community to create small developers who do projects as either a side endeavor or a full time career.

To best utilize its short term resources, the City of Corpus Christi could through its DMD ally support the development and training of small developers through educational events in Houston or San Antonio. Locally, creating a support group of professionals working on real estate in the downtown area would help circulate knowledge and implementation techniques. The initial investment in the early adapters may be steep, but is the best way to demonstrate the huge opportunities that are available in this work. The Incremental Development Alliance is currently testing education and engagement techniques for small developers in an intensive manner over 18 months in Columbus, GA. One of the biggest early takeaways from this work is the lack of recognition of the small developer role in the community. Many people who do the work are more well known for doing something else besides real estate. Outreach to local businesses and organizations that work with business startups may be the first step to start identifying individuals who could be further trained. This work was discussed in conversations with the DMD, DEDC and with local banking professionals.

Strategize how to create ongoing mentorship and technical assistance programs

- Discuss what strengths and weaknesses Corpus Christi has in creating its own set of support programs and networks for small developers.
- Discuss what other regions are doing to build capacity for this ecosystem through collaboration with foundations, local and state economic development agencies, colleges and private design and construction industries.

In short, there is no silver bullet solution. Collective resources will need to be spent by public and private sector agencies to outline pathways to start doing this work. In Chattanooga, TN, a local foundation and CDC worked with the Incremental Development Alliance to create standard and repeatable building types derived from existing productive and well loved structures in their community. These simple buildings, quadplexes, backyard cottages, 8-plexes, courtyard buildings, and small mixed use buildings, were all designed and set on typical sized lots in the city, a mere 50' x 135'. These schematic floor plans and site plans were then vetted with local trades and city development officials to resolve technical issues and provide a more detailed cost estimate. A development pro forma was then created to show the type's financial viability as a project and the returns to operators and investors. These packages are formatted to provide all the information necessary for an initial conversation with an investor or banker to help obtain financing. City properties and properties owned by the CDC are now being used to pursue piloting actual construction of some of these types to vet the examples fully.

It was pointed out that there is a minimal non-profit development organization presence in Corpus Christi. There seems to be excellent synergy between properties in the south end of the TIRZ, properties in the sphere of influence of the hospital and along Staples Avenue to explore an organization that may dedicate its operations to small development projects in that zone. Goals for providing workforce housing or assisting entrepreneurs to build/renovate small commercial/mixed use buildings would provide an engine for projects to occur. This sustained effort and support to a Community Development Corporation or similar entity also signals the long term commitment of resources to a place which may not have seen significant investment in decades. It is the kind of organization that smaller private sector builders and developers want to be in the shadow of so there is someone else trailblazing. This organization could also have readily available technical assistance or pre-arranged compliance pathways, access to bankers, investors and credit enhancers and a healthy natural progression of mentorship from other small developers are critical aspects to a supportive ecosystem for small projects.

The Incremental Development Alliance provides Executive Coaching for leaders of economic development, non-profit development, housing agencies, foundations and related groups who are attempting to implement strategies to strengthen the ecosystem for small real development projects to occur in their community. Corpus Christi has many of the important elements necessary to have a robust community of small developers and I would encourage its leadership to continue to explore the options for making that potential, reality.