A growing preference for urban living—those walkable, amenity-rich environments with character, small businesses, a sense of place, and local charm.
THE HOUSING PRIMER that Isn’t Just About Housing

By Andrea L. Dono
The numbers are impressive. But numbers don’t show “intangibles”—the change in spirit downtown, the rise in quality of life, the pride in the community. The exposed brick and high ceilings of the loft apartments prompt residents to say they no longer feel like they are living in a small town because their homes feel chic and metropolitan. Other attractions include the nightlife, the farmer’s market, and the charming character of the downtown. People seek out Harrisonburg as a place to live; they’re excited about it—something no one saw happening 10 years ago.

Research and trends are enthusiastically championing a growing preference for urban living—those walkable, amenity-rich environments with character, small businesses, a sense of place, and local charm. In fact, an article last December in the New York Times said that in Detroit, demand for downtown and midtown living among young professionals and empty nesters has led to a 96 percent occupancy rate and a near-shortage of rentals. Part of the story is that major employers offer rental rebates to get employees to live in the city instead of commuting, but the other part of the story is that the city is focusing on improving those neighborhoods and giving people a reason to stay after 5 p.m.

Reaching a 96-percent occupancy doesn’t happen overnight. Detroit is the poster child for disinvestment; but the city found a way to bring back urban living, and so can your community. All Main Street districts actively working to make their communities more livable have a shot at attracting residents. And the added bonus is that there are lots of “white elephant” buildings that need mixed-use redevelopment and have vacant or under-used upper floors that can bring housing into the district, help diversify real estate uses, and create new economic opportunities for property owners.

However, you also need to understand the residential market: who are your current and potential residents; in what types of places do they want to live; and what rents can they afford? Too often, a city will point to a failed housing project from years past as a reason not to try again, even though the failure involved a “build-it-and-they-will-come approach,” paying no mind to realistic rental rates. It’s also essential to understand good planning and appropriate placement of housing, as well as how to deal with the financial gap of some adaptive reuse and upper-floor renovation projects.

Lastly, Main Street housing doesn’t exist in a vacuum: residential and commercial sectors complement each other; and, especially in the case of mixed-use projects, they depend on each other. So, to talk about housing means you’re talking about retail. And, that’s why I say this housing article isn’t just about housing. Let’s dig in.

When the Harrisonburg Downtown Renaissance program started up in 2003, there were 150 housing units within this Main Street district in Virginia. Most of the inventory was affordable housing, with some small market-rate apartments above storefronts. Today, after the Main Street program went into action, there are more than 500 housing units downtown. And development plans indicate that the number of units will keep escalating.
Seniors
Seniors are taking a second look at urban living. An October 2012 report by the Urban Land Institute (ULI), *Housing in America – The Baby Boomers Turn 65*, points out that people ages 65 and older will be the fastest-growing group in the U.S. through 2050. This demographic numbered 34 million in 2000, 40 million in 2010, and is projected to hit 55 million in 2020—a 36 percent growth rate! You simply can’t ignore a trend like this. But what is even more significant is their desire for urban living. Boomers are selling their McMansions and downsizing to smaller apartments in cities. They want to walk to places, experience arts and culture, and take advantage of public transportation. They want a trip to the doctor to be as easy as going out to dinner. The National Association of Realtors says this group will be looking at urban downtowns, suburban town centers, and small towns.

Millennials
At the other end of the spectrum are the Millennials. They are between the ages of 17 and 34, and there’s more than 80 million of them running around (a few million more than the Boomer generation). There are some changes in the ways they are living their lives compared to, say, the Gen Xers who preceded them. After they graduate college, they plan to pick where they live first and choose their jobs second. They are putting off starting families and, thus, are generally buying homes later; so they are primarily renters. Like the Boomers, they want cool, walkable communities and enjoy amenities like Wi-Fi in common areas, dog parks, and outdoor living rooms where they reside.

Renting Versus Homeownership
In a panel discussion at an October 2012 ULI conference, Leanne Lachman of Lachman Associates, a real estate consulting firm, stated that Millennials will be renting for a while and that many of them are interested in moving back to their hometowns. Dr. Mark Dotzour, an economist who delivered the keynote speech at the 2012 Governor’s Housing Conference in Roanoke, Virginia, pointed out the massive amount of debt with which recent college grads are starting their lives. This will prompt them to rent for a long while, too.

Chris Lee, president and CEO of the real estate consulting firm CEL & Associates, Inc., put some numbers behind this. In an article for *Multi-housing News*, he references stats from his new book, *Transformational Leadership in the New Age of Real Estate*. By 2020, he wrote, America will have shifted to a more renter-based society with renters increasing from 34 percent to between 39 and 42 percent of the population and that demand for apartments, especially, will increase.

What’s driving this? Lee agrees with Dotzer about the challenges facing college grads, but adds these issues as well: “flat-to-modest household income growth, shifting geo-centric job opportunities, delayed Baby Boomer retirement, reduced discretionary income, and the continued shift to new urbanism.”

But more intriguing is what Lee thinks people looking for housing find attractive: “The shift to a more renter-based society will also increase demand for more urban, walkable communities with multiple adjacent assets (e.g. hospitals, entertainment centers, retail and grocery stores, proximity to employment centers, dining facilities, transit centers, educational institutions, and recreation areas). Demand for community identity, sense of place, and proximity

---

attributes will guide where-to-rent decisions. Properties that require commuting will not be favored by a growing number of residents who want to simplify their lives, recapture time lost, and engage with others ‘like’ themselves.”

Power of Place
Main Street revitalization is steeped in placemaking. You can’t swing a cat without hitting blogs, research reports, articles, or books that declare the power of place as the savior of our communities.

Here’s one example. The Knight Foundation’s “2011 Soul of the Community” study asked 43,000 people in 26 communities what made them choose their community and stay there. People replied that they really value the aesthetics (physical beauty), the openness and welcoming nature of the people, and opportunities for social engagement/gathering and entertainment.

Ed McMahon, a real estate expert at ULI, says that it took a while, but the marketplace is starting to reflect values of good design, the desirability of walkable and bikeable places, greenspaces, and the appeal of strong downtowns. I have heard him say that even the National Association of Home Builders admits that place is more important than product.

It’s worth mentioning that McMahon has also proclaimed that strip malls are dead. He says there are 1 billion square feet of vacant retail space in America and most of it is on the strips. If national retailers are abandoning sprawl, I wonder, how long before people follow? Whoa—there are studies on this, too!

In December 2012, Smart Growth America released “City Versus Suburban Growth in Small Metro Areas.” It looked at the growth rates of metropolitan areas—cities with populations of 150,000-250,000 as well as cities with 250,000-1 million people—and determined that cities are growing faster than the suburbs. Earlier in 2012, the Brookings Institution released its study of large metropolitan areas and, on average, discovered the same trend.

It makes sense for Smart Growth America to attribute the success of these small-city urban areas to investments in smart growth policies, like “complete streets,” which are finally paying off. What’s cool is that Clarksville, Tennessee, is number one on the list, with its center city expected to double the growth of its suburbs. Prompting this recognition is the work of the Downtown Clarksville Association, the downtown artists co-operative, and the Smart Growth 2030 city plan.

Lastly, it might be worth mentioning that another vocal champion of the power of place is the prolific New Urbanist author and researcher, Richard Florida, who brought us The Rise of the Creative Class. His book tells people that cities need to attract talented, creative workers by creating places where these people wanted to live.

Today, Florida talks more about “quality of place,” which is the intersection of things like street activity, green space, arts and culture, coffee shops, and cafes where people have dynamic experiences that engage them in community life. But today, his views are influenced by the importance of authenticity. He says this is a driver in determining where creative class types decide to live as they are looking for: “… real buildings, real people, real history…. A place that’s full of chain stores, chain restaurants, and chain nightclubs is seen as inauthentic. Not only do those venues look pretty much the same everywhere, but they also offer the same experiences you could have anywhere.”

What to Make of Trends
Some trends seem to be near universal. For example, Nick Kalogeresis, a vice president of the Chicago-based planning firm Lakota Group, points out that he never could have predicted 15 years ago that bookstores and

Eddie Bumbaugh, executive director of Harrisonburg Downtown Renaissance (HDR), says that from the very start of the Main Street program, the organization’s leaders wanted to make housing a priority for the downtown.

“By having more people living downtown, we could create a strong base for retail. Our retail niche is growing and is sustainable because we have built that base,” says Bumbaugh. But, of course, he notes, the events that bring people downtown and great restaurants that attract diners are all part of a multi-prong approach to supporting local businesses and building the vibrancy of the street.

People talk about having a 24/7 downtown. Honestly, those hours are more realistic for New York or Chicago. Many Main Street districts, however, can talk about an 18-hour district. This is one that captures the morning activity of people on their way to work; daytime traffic from local businesses and office workers, along with stay-at-home parents, retirees, and people who work at home; and the after-work diners, happy hour patrons, and folks who shop and run errands at the end of the day.

The leadership of Harrisonburg Downtown Renaissance wanted an 18-hour district from the get-go. When HDR got started, it decided that growing its downtown residential base would be one way to activate the street and help build a customer base for retail shops and restaurants. People are out and about more. They can walk to restaurants and evening establishments. They meet their neighbors while walking their dogs and they can stroll twice a week to the farmer’s market. Housing on Main Street enlivens the community and catches the attention of people passing through, some of whom may be potential investors or business owners....”

Many of the 500 living units in downtown Harrisonburg are in historic buildings or innovative, new structures, such as Urban Exchange (right). This mixed-use facility, constructed with green principles and materials, has retail space on the street level and parking underground, with four levels of upscale apartments above.
In 2003, downtown Harrisonburg was a diamond in the rough, desolate and uninviting. Today, it has a growing arts scene, with an Artisans Downtown Gallery and events such as Art Lotto (above), which features portraits of artists by artists, and family-friendly festivals like Valley Fourth, which features live music and entertainment on three stages (above right).

SO, HOW’D THEY DO IT?

When HDR was launched in 2003, the downtown had approximately 150 housing units, almost all of which were affordable housing. Ten years later, the district has more than 500 units, many of which are upper-scale or luxury apartments. Reflecting national trends, this housing is meeting the demand of young professionals, although Bumbaugh notes that people of all ages are taking an interest in living downtown.

In 2003, downtown Harrisonburg was a diamond in the rough. Buildings were vacant and façades needed work. The street was desolate and unnerving—and people thought the area was unsafe. The Main Street program rolled up its sleeves and got to work implementing the four points of the Main Street approach: filling vacancies, beautifying the streetscape, planning festivals, and trying to change people’s attitudes about the district.

“We set the groundwork and over time, things started falling into place,” says Bumbaugh. However, he felt in order to make rehabilitation projects economically feasible for developers, the district’s buildings needed to qualify for historic tax credits.

“We were the only city in the Shenandoah Valley that didn’t have a historic district, he says. “And, if I had to pick the biggest effort that facilitated increasing housing units downtown, it would be getting listed in the National Register so we could become eligible for federal and state historic tax credits.”

The initial focus was the downtown commercial district. It was a controversial subject; rumors began to fly about how design review boards wouldn’t allow minor changes and would trample the rights of property owners. Bumbaugh agreed that there probably are some unwieldy and unreasonable review boards, but he formed an advisory committee to collect examples of successful historic renovation projects in other communities and discuss how Harrisonburg could benefit from historic district designation like so many other downtowns.

Over several months and after many presentations, the fears of the business community and property owners were assuaged and the downtown received its historic designation.

While there had been rumblings of interest among residents of Old Town, the residential district within walking distance of the downtown, no one had ever completed the process of getting it on the register. The Main Street program stepped in to help Old Town receive its designation, which instilled a new pride in the community and renewed a sense of stewardship.

In 2006, HDR began planting the seed among property owners and developers that downtown housing could become a reality. It launched a three-part educational workshop series. The first workshop covered trends they were seeing in the downtown, successful projects around Harrisonburg, and planned projects. The second workshop featured people from Staunton, Richmond, and Roanoke who talked about their housing and mixed-use projects.

Bumbaugh said the main goal of the first two workshops was to create optimism and inspire people with success stories from similar communities. The last workshop brought in experts who could explain how to make a successful project happen. Attorneys, architects, bankers, and city and state officials discussed using historic tax credits, applying for financing, and dealing with design issues.

“People who previously thought they didn’t have the knowledge to make these types of projects happen learned that there were resources available locally to provide assistance and others in nearby cities who could help them learn from their mistakes,” says Bumbaugh, inviting the media and dedicating one of HDR’s quarterly newspaper inserts to downtown housing helped generate even more buzz and build local enthusiasm.

Around the same time, the Virginia General Assembly passed enabling legislation to create “economic revitalization zones.” Harrisonburg was among the first Virginia communities to take advantage of this new policy and get the ability to approve ordinances to create incentives for new mixed-use projects. The city decided to offer tax abatement incentives. Qualifying projects had to be mixed-use, with 40 percent of the ground-floor space devoted to retail. The projects also had to cost $1 million or more—the more expensive the project, the greater the incentive. New real estate construction could have property taxes frozen for up to 10 years. The lowest number of years for real estate tax abatement is five years.

CATALYST PROJECTS

I would argue that Harrisonburg’s Main Street program and its incremental successes were the main catalysts. But we all have seen scenarios where the market is slow to act, and it’s not until one or two people pull off a project that others are inspired to take action.

The City Produce Exchange was built in 1911 to serve as a trade center for eggs, butter, and poultry. The structure stretches
over an acre and abuts railroad tracks, on which trains carried produce throughout the East Coast. It was sold to the Wetzel Seed Company in the 1930s and took on a second agricultural life that lasted into the early 2000s. Local developers Andrew Forward and Barry Kelley, who both went to James Madison University and live in Harrisonburg, found themselves purchasing the 50,000-square-foot building in 2005. “We were both looking for a project to work on,” says Forward, “so we took a tour of the building. After five minutes, we said, ‘let’s do it.’”

They each had nearly 30 years of experience managing properties in the Harrisonburg area, says Kelley, and felt they understood the market. He says they “knew what was missing.” Seeing a market need for housing downtown, they seized the opportunity.

After working out the numbers, Forward and Kelley realized that using the newly available historic tax credit was the only way to make the project pencil out. Neither of them had used historic tax credits, so they prepared themselves by doing five months of research: talking to other developers who worked on historic properties, going to tax credit seminars, connecting with the Virginia Department of Historic Resources, learning which building upgrades and changes would be acceptable, and hiring an architecture firm that specializes in historic rehabilitations.

They had big plans. Their design schemes were rather grandiose and probably too expensive now that they look back on it, but they quickly learned that the Secretary of Interior’s Standards wouldn’t allow façade changes.

“Truth be told, scaling back our plans to fit in with the requirements for historic properties saved us money and helped steer us back toward keeping the look of the building we were drawn to,” says Kelley. “We could have used new windows and it would have been a lot cheaper and we could have decided not to match the original brick work. But we got that expense back in tax credits, and it allowed us to keep that industrial feel alive and well in this building.”

Forward proudly adds that they saved a piece of history. “Tearing the building down meant you’d lose an opportunity of a lifetime. Today, there is no economically feasible way to build a four-story brick structure of that quality, especially not with those character-defining elements of exposed wood and high ceilings.” And, he points out that if it was torn down, because the siting was right on the lot line in the front and up against the rail tracks in the back, nothing could be built on that lot. But saving such a historic gem did cause some grey hairs. Trying to meet modern code in an older building is a huge challenge for many developers. Forward and Kelley ran into fire code issues and a short delay in getting the final certificate of occupancy while people were waiting outside in their moving vans.

Then there were numerous developmental challenges. For example, when trying to hook into the storm system, they uncovered an ancient limestone storm sewer system that had never been closed up. It was carrying pollutants into the local stream and causing water to flood the basement. Luckily, their discovery helped put an end to polluted water, although it added another chapter to the book of their nine-month project.

Forward says, “We are more informed now. And the city is, as well.” The city had never been involved in a project like this before. It had to hook up to old pipes that no one had thought about for more than 50 years, so they got through it by working together.

That spirit of collaboration continues as downtown Harrisonburg strives to become even more developer friendly. They are engaged with Bumbaugh and using lessons learned from projects over the last few years to streamline the development and permitting process and find ways to make rehabilitations and new construction easier.

Local developers Andrew Forward and Barry Kelley used historic tax credits to turn Harrisonburg’s 1911 City Produce Exchange (above) into a beautiful luxury apartment complex (left), which has 32 apartments and no vacancies!
After seeing the success of the City Exchange project, John Sallah purchased the 56,000-square-foot building across the street and used historic tax credits to turn it into a housing complex that added 48 apartments to the downtown.

Forward and Kelley ended up with City Exchange—a gorgeous $5.1 million rehabilitation project filled with 32 luxury apartments (no vacancies) and a popular farm-to-table restaurant—a nod to the community’s agricultural past and the building’s heritage. Interestingly enough, the developers had planned on creating ground-floor office space, but early feedback indicated that members of the business community felt they had other options. In looking back, Bumbaugh says, some of those people realized they had passed up a great opportunity.

Forward adds that potential tenants for office space “had a perception that the northern side of downtown was not safe and they wouldn’t feel comfortable working in the area. However, our potential [residential] tenants were younger, had come from an urban environment, and didn’t seem to have the same concerns. We were also providing a unique residential environment that wasn’t available anywhere else in town.”

Forward and Kelley remain actively involved in other developments around town, including some new, eco-friendly projects like their Urban Exchange. This project features 12,000 square feet of ground-floor retail, underground parking, 194 condos, recycling shoots, bike racks, electric car plug-in stations, low-VOC and recycled materials, and EnergyStar appliances. They also used local suppliers and laborers for the project. A new city tax incentive for new construction in an economic development zone helped finance the project.

At the same time as the City Exchange project, John Sallah, another Harrisonburg area developer, was keeping a close eye on what Forward and Kelley were doing. “Everyone thought they were crazy,” Sallah says. “They bought the [City Produce Exchange building] for a song and when they announced they were doing residential we all wondered what they were thinking; nobody wanted to live downtown.”

Halfway through Forward and Kelley’s construction project, it became clear to people like Sallah that it was going to be a success, and he bought the building across the street to develop Sancar Flats. Their project inspired Sallah as he took tours of the City Exchange and learned about tax credits. He researched similar projects in other Virginia towns and was inspired by what others had been able to accomplish.

Sancar Flats is a 56,000-square-foot building that ultimately added 48 apartments to the downtown, but a lot of work was needed to get it up to code and turn it into an appealing place where people would want to live. The historic tax credits made the project feasible, but Sallah said he felt hampered by historic standards and prefers to do projects where someone else isn’t telling him what to do.

For smaller projects, Sallah prefers to forgo the tax credits. The money he pockets after splitting it with his business partner isn’t worth the “headache of dealing with people in Richmond.” But at the end of the day, he enjoys the challenges of working on older buildings and prefers them to new construction, which he feels has no soul.

“My idea is that you do no harm—make it a great project. I have respect for the character of these buildings and what they used to be,” says Sallah. “It doesn’t make sense to work in a downtown environment with a certain vibe and distinct architectural styles and do a project that is inappropriate and wacky in regard to its surroundings. It would stick out. No one would want to rent there.”

Sancar Flats has been completely full since three months into the project, and Sallah stays on the lookout for other new projects in the area. But he finds it frustrating that many of the downtown buildings still in need of redevelopment are sitting vacant and deteriorating as their owners wait for someone to purchase them for an overly inflated price. Expensive sales prices make it cost prohibitive for a developer to rehab a building.

“The difference in the downtown area today is night and day from when I moved here in 2001,” recalls Sallah. “You can walk the streets safely; we have great bars and restaurants. It all builds on other projects and improvements that happened earlier. Bumbaugh was the cheerleader for downtown. Someone had to be willing to step up and do something. A lot of the positives about downtown are because of HDR. People thought he was out of his mind—that downtown would always be a dump. Someone has to [take a chance] and roll the dice. That is a rare thing.”

**IS THIS A REPLICABLE SUCCESS STORY?**

Can this type of success happen in just any community? Let’s look at what Harrisonburg has going for it. There are jobs in the...
area. Rosetta Stone has a headquarters in Harrisonburg and employs about 500 people. James Madison University, which has a student body of about 20,000, is close to downtown, making it a natural fit for students and faculty to live in the district.

“I think it is an oversimplification to say that those sources explain the whole story,” says Bumbaugh, who firmly believes that none of this could have happened without Harrisonburg’s Main Street program. “If you do downtown revitalization effectively, it creates an interest in downtown living. We tried to develop a strategy that worked in tandem to make downtown more desirable and to create more residential units so we can drive more business to local retailers.”

Early on, a sit-down restaurant opened downtown, signaling to people that the district was changing. It showed other business owners that they could get financing for their projects, too. For a long time, people thought downtown was dead and that there was no hope. They all thought HDR was wasting its time.

“People told us the future was in the suburbs, but we had a vision of where we wanted to go and we used the Main Street model to create small, visible successes so we could tackle bigger projects while changing perceptions,” says Bumbaugh. HDR offered façade grants, planned events, and put banners on lampposts—all to get people excited about coming downtown again and investing there.

To show people what has been accomplished and to build interest in more housing projects, HDR hosted a downtown loft tour. The tour highlighted projects and got people excited about the high ceilings and other amenities of urban living—and it showed other developers how it could be done. The event was well attended and people walked away amazed that incredibly cool places to live existed downtown. Every property owner reported a notable increase in calls from potential renters after the tour and said they had to start waiting lists for their properties.

Bumbaugh believes that every community has strengths and assets, and with a positive outlook and a “we-can-do-it” attitude, you can prove to people that downtown is worth their investment. Downtown Harrisonburg has done an excellent job leveraging its assets and creating a place where people want to live; and, HDR was savvy by creating a major opportunity out of an untapped market.

Harrisonburg’s annual Independence Day celebration and HDR’s signature event, Valley Fourth draws crowds upwards of 8,000 people. Attractions include a parade, a wine and beer garden, a dunking booth, and a grand finale fireworks show.

© Allen Litten
record shops would become endangered species. But with the changes in technology came changes in consumer behavior, which has had a widespread impact on Main Streets across the United States.

When it comes down to it, however, we must be smart consumers of trends data and projections. While it’s important to keep an eye on national and regional trends and think about how they might affect your district, be aware that your local market may not end up reflecting them, or might not reflect them immediately.

Laurie Volk, market analysis guru and principal at Zimmerman/Volk Associates, Inc., (ZVA) points out that in some places she’s seeing Boomers put off their move into downtown environments because they can’t find buyers for their homes right now or because they lost money in the stock market crash.

Another thing to look out for is if the numbers pencil out before your town jumps on a trend bandwagon.

“Back in the 1970s, everyone was talking about closing off Main Street and creating a walking mall. Dozens of cities did it and it was a disaster,” says Al Tetrault, the recently retired adaptive-use dynamo of the planning and architectural firm, Tetrault and Associates. He reminds us that Urban Renewal’s pedestrian malls were once a hot trend—as were the less pernicious arts and entertainment districts that failed in communities where the market couldn’t support them.

“Even if you told people, ‘it is bad economics and art districts won’t work for you,’ they all say they’ve got to have it. Too many planners have a herd mentality,” says Tetrault. “When an article or new book comes out declaring something as the latest and greatest, everyone decides they need to do it, too. Conceptually, some of these ideas might seem great, but you need to consider the specifics and come down to earth.”

Tetrault also refutes the notion that only certain types of people can move to a city and be the game changers that the “creative class” promises. He has worked in every state in the union and never once walked away saying, “wow, what a group of stupid, uncreative people live there.” Instead, he wants communities to realize the value of the incredibly diverse talents their residents have.

“There are great assets in every community, but the locals don’t always realize they are assets. They walk by them every day and don’t realize it or don’t think that what they have is unique from other places,” Tetrault says. “Once you have good leadership that can recognize the assets in a community, you can put them to good use. Every community is creative and it doesn’t have to declare itself a ‘Creative City’ to capitalize on that.”

Kennedy Smith, principal of the CLUE Group, also advises communities to do their own projections of population growth (or population loss, as the case might be).

“I think communities sometimes put too much faith in population growth estimates produced by state agencies,” says Smith. “I worked with a community this past year in which the state’s data service predicted that the community’s population would grow by 1 percent between 2010 and 2020, but, as of 2012, it had already grown by 2 percent.”

**MAY THE (MARKET) FORCE BE WITH YOU**

John Sallah, a developer in Harrisonburg, Virginia, says of certain towns, which will remain nameless, “you’d have to pay [me] to invest there. The town itself needs to be economically viable.”

So, then, what are the market forces at play and what makes a town economically viable and attractive to developers? The answer comes down to economics and an understanding of real estate: it’s an inter-twined mix of community planning, market analysis, and community leadership.

**THE SEEN AND UNSEEN MARKET**

Laurie Volk of ZVA says there is a downtown market for housing everywhere: “It is just a matter of figuring out how big that market is, what the housing price points should be, what types of housing should be developed.”

© Photo Credit Linda Glisson

(Continued from page 7.)
As you think about attracting more housing development and residents to your downtown, spend a bit of time analyzing what is happening in your district already.

* Take an inventory of the current housing in your downtown (new construction, mixed-use projects, and upper-floor conversions) noting, too, which is affordable housing, market rate, and luxury.

* Look at the housing activity in the surrounding area—are there new condos or apartments being built nearby? Are developers building walkable lifestyle centers? Know what your competition is doing and to whom they are marketing.

* Get your hands on state and local demographic data and population trends.

* Take an inventory of vacant or underused upper floors and vacant or underused buildings that could become mixed-use projects, and empty lots that could be developed with projects that include housing.

* Take an inventory of your assets. Bring in someone with fresh eyes to walk through the community with you and take note of the attractions, amenities, and selling points, especially as they relate to the desirable community elements that resonate with people looking to live downtown. This will help you determine how you can market your Main Street as well as what your city should be working on.

She explains that it all comes down to the mix of households. For her, it is never a question of whether or not a community can support housing. It is more a conversation about how much housing the market can absorb and understanding the households.

ZVA looks at how many households are moving in, within, or out of a particular community over time, as well as where they are coming from and where they are going. This information, which sets the foundation for understanding mobility and migration patterns, had been pulled from annually collected IRS data, but now the U.S. Census will be tracking this information every five years.

Next, ZVA layers on Nielsen Prizm data from Claritas. This is really interesting data. If you go to Claritas.com and look at its “MyBestSegments” page, you will find segment groups based on demographics and behaviors and see their typical traits and characteristics.

“We pull Nielsen Prizm and mobility data to understand how frequently people move within the city and who they are, and how many people are moving into a city and who they are,” says Volk. “We learned if you can target new housing options to households, you can become attractive to certain segments of the population that were thinking about moving out.”

This methodology goes beyond a typical supply-and-demand model because the analysis incorporates a layer of hypothetical demand, rather than actual demand, when a new supply of housing is developed. You can tap a new or unseen market by adding a new product that appeals to them. Give them what they want so they don’t move away.

You can match your community’s own demographics—age range, income levels, and other indicators—with the segments from the Nielsen Prizm data to learn about these groups. For example, if you have a cluster of people under the age of 55 who are in the upper-to-middle income range in your urban community, you might have a critical mass of the “Bohemian Mix” segment.

Nielsen Prizm describes this group as: “A collection of mobile urbanites, Bohemian Mix represents the nation’s most liberal lifestyles. Its residents are an ethnically diverse, progressive mix of young singles, couples, and families ranging from students to professionals. In their funky row houses and apartments, Bohemian Mixers are the early adopters who are quick to check out the latest movie, nightclub, laptop, and microbrew.”
For Volk, a district with a Bohemian presence means that the abandoned warehouses and old factories could have a second life as eclectic housing by meeting the lifestyle preferences of this segment. But that adaptive-use project can only happen if the developer asks for a rent that this group can afford.

Understanding your market will indicate realistic home prices and rents as well as consumer preferences. Volk points out that young professionals who really like walkable, urban-like communities typically prefer lofts with open floor plans. They also like to spend more time outside their homes than in them, so smaller units are attractive. Too often, she explains, home developers try to bring suburban designs with lavish features into a downtown and they don’t end up becoming a hit. In fact, she is seeing some traditional suburban developers shifting their paradigms toward new urban models.

Although she adds the caveat that the hottest trend—“micro apartments” that can be as small as 150-square-feet (seriously, Santa Barbara and San Jose in California already permit these units)—can only work in well-established places where the city already has a lot to offer. More than likely a downtown that is still struggling with its revitalization won’t have a market for micro-units.

“No one should think their downtown is so awful that no one will ever live there. I have yet to come across a downtown where there isn’t something it could build on,” says Volk. “The biggest mistake I have seen is where rents and sales prices are reflecting the cost of bringing those housing units online instead of asking what the market can afford. If a city tried housing 10 years ago when there was no housing available at all and tried to sell expensive luxury condos, it shouldn’t be a surprise that it failed.”

Volk recommends concentrating efforts in an area so that you are building on strength. That will make development happen faster. You need to start at the core and bring that back; otherwise it is difficult to bring back surrounding neighborhoods. It is hard to get synergy going over a spread-out area. One example of a community that has been doing that particularly well is Lynchburg, Virginia.

Leadership
Years ago, the local economy of downtown Lynchburg was devastated by the opening of a regional mall. The streets were lined with vacancies and there was little to do downtown.

When people talked about growth in the area, they wanted to put money where the activity was—in the suburbs and along roads to the airport and to the mall. An intense political battle ensued, and the city council and mayor made the unpopular decision to channel investment into downtown. It had great old buildings, high-quality construction, and gorgeous architecture. Built along the James River, Lynchburg had a picturesque setting in a natural environment. It had the bones for a strong revival.

The city then made another unpopular decision. Jerry Falwell established Liberty University in Lynchburg in 1971, and his dream was to expand it. The community was divided. On one hand, some people didn’t want their community associated with such a strong religious figure, while others felt the influx of almost 13,000 people to the area would boost growth and economic activity. The city decided to support the university’s expansion.

Today, the city is thriving—it has a growing population, a strong tax base, a year-round tourism market, and jobs.

“When you have thoughtful, good leadership in a community coupled with a realistic approach to decision making,” says Tetrault, whose consulting firm was called in to help a developer with a major catalyst project. “Then you will have good real estate development.”

The city’s first action was commissioning...
a stepped plan; it thought through its goals and what it wanted to accomplish and developed a series of steps to get there. Community leadership decided to set aside $10 million in tax revenue for the downtown and to add $1 million over the next 20 years for downtown improvements, such as streetscape enhancements and riverwalk design. Having acquired a portfolio of real estate from people who lost their buildings because they didn’t pay their taxes, the city planned to work with developers to get the right kinds of projects into the downtown.

The downtown area itself is small. Its core is concentrated between 5th and 12th streets. The city knew that the 5th Street corridor suffered from a high amount of poverty, disinvestment, and racial tensions that would take time to address. The other side of downtown, along 12th Street, was the main gateway that could be used to showcase downtown and spur interest in investment.

The city wanted to make people feel comfortable downtown and to convince developers to do projects there. It began by revitalizing the waterfront and making the riverwalk shine. It invested in creating a public market. It partnered with a developer on the Bluffwalk Center rehabilitation project—the transformation of a 55,875-square-foot former historic shoe factory into a four-star boutique hotel and conference center, two restaurants, and a microbrewery. The Craddock Terry Hotel and Conference Center gets a nightly rate of $20 more than area hotels and has monthly occupancy rates as high as 84 percent, with a 76 percent annual occupancy rate. The two restaurants, Shoemakers and Waterstone, are the top performers in Lynchburg and the surrounding region.

“Lynchburg experienced an attitude change. People from the suburbs felt safe coming downtown right off the highway and into this concentrated area of attractions,” says Tetrault. “That change in attitude attracts developers. A progressive community will share the risk and work with developers on projects, which makes more of them willing to invest downtown.”

As these incremental changes began to build, and as the city worked its way from 12th Street to 11th Street, 10th Street, and beyond, people have begun to see what’s going on, “it grows on them, and then they want to live downtown,” says Tetrault. “Then you can do housing. It never comes first.”

The market has shifted so much in Lynchburg that a developer is building a high-rise condo with units overlooking the river. The apartments range between $500,000-$600,000, and the developer has pre-sold four of them. But as Tetrault points out, people don’t live where there isn’t employment.

“You need to look at the employers you have and your employment scheme. You need to look at your strengths and talents and figure out why you don’t have more...
employers and businesses in town,” he says. “Most communities say, ‘gee, let’s get a Walmart or build a stadium,’ but the solution comes from thoughtfully analyzing your limitations and abilities. Based on that information, you can figure out how you can grow. It isn’t a quick fix; it requires making adjustments as you move forward and analyzing each step that you make.”

The city of Lynchburg deserves credit for spending the time and money to create a solid plan for downtown redevelopment—and for actually following it and making incremental changes to this day. It also should be recognized for being a good partner by helping to remove as much risk as possible for projects important to the downtown.

In the case of the Bluffwalk Center complex, the project was too risky for the developer to take on alone, so the city provided tax abatement and allocated land to create a parking facility. Even with those incentives, financing trouble stalled the project. Although local investors were willing to invest, commercial loan underwriters and tax-credit investors weren’t, based on the original proposal. Tetrault & Associates helped restructure the deal and recalculated the project’s pro-forma in a business-friendly format that appealed to both underwriters and investors.

The developers had been unsuccessfully trying to finance both the real estate development and the businesses that were to go into the Bluffwalk Center as a single project. They had to separate them into two deals—the rehab of two valuable historic buildings and a business involving four tenants. Lenders were pleased to see leases for the four commercial spaces, which projected a positive cash flow for the real estate project.

Reworking the $21 million project and infusing it with federal and state Historic Tax Credits, New Market Tax Credits, a HUD 108 loan, and several million dollars from local private investors helped Bluffwalk’s doors open in 2006. But even six years later, the project’s story isn’t over.

In a complex, multi-layered financing structure (nine sources of financing), the developer consistently paid all the notes except the city’s. The city’s loan was a subordinated note and the developer only made payments as funds became available. Even with missed payments, the city continued to assist the project and worked with the developer to periodically restructure the note. Though the developer has and continues to be in arrears, the project currently brings in approximately $1.5 million in tax revenues (real estate, occupancy, and sales taxes), which exceeds the loss and deferral of the city loan.

“It continues to be a work in progress as they renegotiate with the lenders, tax investors, and the city,” says Tetrault. “But, that is how downtown deals are done. It’s a compromise between a community and development groups. We need to make it attractive to the developer to do this kind of work because the associated risk has been reduced.”

Lynchburg’s story shows how good planning, leadership, incentives, and the leveraging of assets create a solid backdrop for successful housing. The types of projects and revitalization strategy in Lynchburg make housing attractive and viable in the downtown. Even though the Bluffwalk Center isn’t a housing project, it illustrates the city’s partnership approach to redevelopment and is part of the greater story that tells how a city is truly the sum of its parts and housing is just one of those parts.

**MAKE ONLY GOOD PLANS**

“We have no idea what retail or residential demand will look like in 10 or 20 years,” says Kalogeresis. Yet, your city still has to take various growth scenarios into account. We can be optimistic about the post-recession economy
and plan for vigorous growth. But what if that doesn’t happen? Do you have low-growth scenarios? Is your municipality phasing how it implements its plan to avoid growing too big too quickly? Do your growth scenarios incorporate adaptive-use projects in addition to new infill in areas that make the best sense? “The only thing you can do is reexamine your plans and zoning periodically and adjust for what is actually happening in your community,” says Kalogeresis. “I work with towns that want to control what happens on the ground floor by requiring only retail uses. But once they start experiencing issues with vacancies, they need to consider relaxing their restrictions, because they might be experiencing a shift and perhaps putting offices on the first floor is their only realistic option right now.”

Taking a cue from Lynchburg, you can avoid overplanning by trying to concentrate development in specific nodes along a corridor and adding housing in specific areas. Detroit is doing this too, by focusing on the midtown and downtown areas and then dealing with the large stretch of vacant buildings and land connecting the two resurfacing areas.

Phasing development and revising your plans will help avoid the “build-it-and-they-will-come” approach that Kennedy Smith warns can lead to a glut of commercial and residential space.

And, with this glut, too often comes “an inherent assumption that new housing developments will replace older—and often historic—housing units,” says Smith. “Housing market analyses rarely seem to take historic buildings into consideration; for example, they seem to assume that the new housing units will be provided by new construction, rather than by conversion of historic buildings, such as underused downtown upper-floor spaces, into new housing units. And, of all the housing market analyses I’ve reviewed over the years, I can only think of a handful that even mention financing tools like historic rehabilitation tax credits.”

Many cities see density and mixed-use development as keys to smart community planning. Mixed-use development, whether it is new infill or adaptive reuse, can be a great way to blend commercial and residential uses and achieve smart growth goals. However, Andrew Farrell, project manager at the National Trust Community Investment Corporation (NTCIC), notes that some places are running into trouble as they require either too high a percentage of commercial space in projects or insist that developers make projects mixed-use regardless of their location. He cites one county where developers trying to meet mixed-use requirements ended up with high vacancies despite good, quality construction.

“On Main Street, ground-floor retail benefits from being part of a downtown commercial ecosystem. Retail shops are part of a contiguous line of 20 or more stores so there is a better chance for customer sharing and getting a new tenant in,” Farrell says. “But if you build a great project in isolation, the chances are higher that it won’t work because it isn’t plugged into a neighborhood.”

Kalogeresis, of the Lakota Group, says he saw this in a couple of Milwaukee’s traditional commercial corridors where the city was trying to encourage new developments designed according to New Urbanism principles. There was a full block of brand-new, mixed-use construction with apartments, offices, and retail; but it was located right off the highway and the first-floor retail lacked on-street parking and, thus, sat vacant. Kalogeresis says the city used the right principles but put the development in the wrong place.

“The planning community feels density is better than no density but issues of design and how it fits in with the neighborhood don’t always enter into the discussion. It just gets built,” says Kalogeresis. “The conversation needs to happen.”

This is where market data and planning need to intersect. Market research—both analysis of the current market and forecasted projections—should provide a reality check about the uses that will be necessary in the community, who will be using them, and how much will be needed. You also need to think about where uses should be located.

This isn’t to say that a project outside of the revitalization core can’t succeed. A destination business often will attract customers to an out-of-the-way site. And in some underserved areas, pent-up demand can make a project work.

“If there has been nothing going on in a community for 20 or 30 years, any new projects and new businesses will be capturing the outbound dollars that were previously leaving your local market,” Farrell says.

For a mixed-use project to work, your understanding of the market will help guide a developer in selecting a feasible commercial-to-residential ratio. Market research will indicate which kinds of demand exists for offices, housing, and retail. It will indicate which types of housing should be offered, which types of businesses should make good tenants, and what rents the market can bear. It will also indicate the types of businesses and services people want and will patronize.

One last word about planning—don’t let parking become a barrier to housing. If your code requires two spaces for each housing unit, and your downtown is still growing, meeting that minimum might not be an issue. But, as the district grows, you’ll need to plan for parking. Look at underused land—from back alleys to land where you can appropriately locate a parking lot or build a garage. Lower the parking minimum to one space or none for each unit or use residential parking permits on the street or in public parking garages. If parking demand is truly high, a public-private partnership can provide the parking space inventory to help make the housing project feasible for the developer.

On Main Street, ground-floor retail benefits from being part of a commercial ecosystem.... But if you build a great project in isolation, the chances are higher that it won’t work because it isn’t plugged into a neighborhood.
the value of a downtown worker, because the employee often leaves after work. This is a concept that benefits more than the real estate developer.

When photographer and Bristol, Virginia/Tennessee, native son Benjamin Walls was looking to open up a bricks-and-mortar gallery, his hometown rose to the top of his list. Having been away from the area for a while, he was skeptical of people’s claims that Bristol was changing and that things were happening there. To him, the downtown had been dead for years and a resurgence seemed unlikely.

But a visit home changed his perspective. He saw occupied storefronts, new restaurants and bars, and an attractive downtown. He also saw a place where he could afford to live and create art as well as real estate he could purchase on an artist’s budget. Plus he relished the idea of living near his whole family again.

Walls ended up buying and rehabbing a historic building on the main street running through downtown. Originally, he was looking for a storefront for his new gallery, but as a self-proclaimed “all or nothing type of guy,” he turned the upper floors that were once in shambles into gorgeous lofts, one for his own home and others that he rents.

“I saw Bristol as a ‘turn-around’ downtown and a place that I anticipated would appreciate in value,” says Walls. “I was motivated to take the risk on creating housing, too, because residential spaces elsewhere in town were renting for more than the retail space. I felt that would be the best way to help cash flow the building.”

In the last six years, 40 lofts have popped up in downtown Bristol and one larger project that will add more than 20 units is in the works. Christina Blevins, the Main Street manager for Believe in Bristol, attributes the growth in housing to the program’s outreach to the development community about how to use tax credits and other state incentives. In Walls’ case, and for many other downtown property owners, it made financial sense to squeeze more revenue from his building by activating the upper floors.

MOVING PROJECTS FORWARD

“If a Main Street program has a vision of a district with mixed-use buildings and upper-floor housing, go public with your long-term vision and use your organization to bring it to fruition,” advises Rick Ferrell,
president of Retail Market Answers. “What the market can absorb and where a developer can achieve ROI [return on investment] tell you which types of housing are feasible—affordable, senior, rental, market-rate, luxury. You are cultivating projects based on what the market data says is achievable and you cultivate human resources in the form of property owners, funders, and other willing participants who collide with good ideas. When projects can be vetted with real economic conditions, you’ll get the support of people.”

Ferrell also points out that with a vision in hand and economic data to back it up, a Main Street program can take an idea to local property owners and impart ideas on how supporting the organization’s vision and/or the downtown plan can benefit them.

If initially there isn’t a large demand for housing in your downtown, be patient, build on incremental successes, and assemble incentives and information for property owners and developers to reach out and get people thinking about downtown living. Good economic development makes downtown real estate more valuable and more attractive to people who take notice of the changes and want to be part of them.

If you are still building momentum for housing, talk to property owners about converting only one of their two upper floors into housing, and then adding additional apartments as the demand grows. The other approach is to turn upper floors into office space, or as one Main Street merchant in Michigan did years ago, use the space above the storefront for a bed and breakfast. As long as your codes allow residential on upper floors, they can be developed into housing units later.

If your downtown already has housing, make sure you are meeting the needs of your residents by conducting a housing survey every few years. If your Main Street district already has housing, make sure you are meeting the needs of your residents by conducting a housing survey every few years.

“Studies like this and our recently completed pedestrian survey and count help us track downtown’s progress and direct our resources to the most appropriate areas,” says Brian Kurtz, Research and Economic Development Manager for the PDP. “It’s important to know the dynamics, behaviors, and needs of the people who live, work, and use downtown. Our downtown population is growing and we couldn’t be happier about it. It seems a new project is popping up every month with a residential component.”

GETTING DEVELOPERS AND PROPERTY OWNERS TO ACT: WHAT MAIN STREET CAN DO

There’s a lot about a Main Street district that should be appealing to a developer.

“We try to identify developments that cultivate and foster connections between people and place because that kind of connectedness drives real estate value. Our philosophy recognizes that the diversity of use and users coupled with intensity of use creates real energy,” says Blair Williams, owner of WiRED Properties. “When we look for our next project, we are looking for places where the heartbeat is already there or could be there with the right projects. Walkable environments where there are places you can eat, drink, and buy local need to be in a community.”

Williams says his firm is interested in working in communities that have a vision and resources in place and objectives that they want to achieve. For Williams, his projects help tell the community’s story and his work helps weave the threads of the urban fabric. He feels WiRED has been successful when neighbors approach him to thank him for bringing something special into their community and say that the building and its businesses feel like they have been there forever.

The other indicator of Williams’ success is 100 percent occupancy. His strategy to achieve that is to cherry pick the businesses to which he will lease. For his mixed-use projects, he wants retailers who support an existing niche, have a business plan, and know what they need to do to be successful. He is always on the lookout for entrepreneurs who “have skin in the game and work every day to improve their businesses.”

When he walks into a business that he likes or that looks good to him, Williams has a conversation with the owner. “I ask them how business is, what their experience is, and if they are interested in expanding into a second or third location. I let them know about the projects I work on, that I like their story, and that I’d like to work with them in finding the right spot.”

Sometimes, though, Williams will find a potential project in a community that he doesn’t know well, and it is difficult for him to confidently approach business owners who might be a good match for him. This is an area where Main Street programs that know the interesting businesses in the region and have connections with entrepreneurs in the area can help developers make good tenant decisions.

But, sometimes, a funding gap gets in the way. If he needs to charge $27 per-square-foot in rent to support the costs of the development but the local businesses in...
the area can only manage $20 per-square-foot, Williams would like to work with the municipality to make it go forward. From offering a forgivable loan to providing tax increment financing [TIF] incentives, a partnership can help make it happen. A developer’s confidence in doing a project might improve by “pre-subscribing” the space, and a Main Street program can be instrumental in helping lease the commercial space by identifying new entrepreneurs and business owners who want to expand their operations. The Main Street program can also get potential residents interested in the units by hosting loft tours and building the buzz about living downtown.

“If you can find a tenant, it helps the whole economics of the project,” says Andrew Farrell. “Generic bankers find underwriting mixed-use projects difficult; they usually understand things like the market and pro-forma for a project that is all residential or all commercial. The developer needs to show the bank why its revenue stream won’t fall short of projections. With mixed-use projects, you have to show revenue streams for both commercial and residential. The bank is going to look at what kind of retail is nearby and what the vacancy rate is. If 40 percent of a project is going to be retail and there is a 15 percent vacancy rate, the bank will figure the chances are it won’t get a tenant and might end up underwriting only the residential portion of the project.”

Rick Ferrell agrees that people can’t go to banks today just with good ideas. They need business plans that reflect the market; and, in some cases, having “pre-subscribed” signed leases in their back pockets and a proven track record of other successful projects can be effective ways to sway a lender.

In some places, large, well-known developers who previously only had suburban track housing and commercial centers in their portfolios are increasingly looking to urban and downtown environments for new projects. In your area, approach similar types of developers and talk to them about using their skills and experience in a Main Street environment.

One way a Main Street program could approach developers, recommends Ferrell, is by issuing an RFQ/RFP (Request for Qualifications/Request for Proposals) on a specific property that the city controls and wishes to have redeveloped in a way that supports downtown goals.

“You’ll catch a developer’s attention by telling them immediately what’s in it for them,” he says. “Say for example, your city issues an RFQ for a mixed-use project in your downtown and that the city is willing to turn the $300,000 property over to a developer who meets the requirements of the RFQ. The developer will know they are starting the deal with a $300,000 incentive.”

With the city as an economic development partner that owns property in the district, selling those properties to developers even for half their value can be a huge motivation. Here’s why. We all know that the lending climate has changed and that lenders have become more conservative in their practices. But if a city provides an incentive, such as selling a property worth $100,000 to a developer for $50,000, the developer walks into a bank with $50,000. If the developer asks for a $100,000 loan and puts that money into the rehabilitation, even if the project fails, the lender’s risk is mitigated by the asset value of the real estate and improvements.

In this scenario, Williams cautions that a bank might not give full credit to the developer for that inherent equity. “It really has to be worth that $100,000,” he says, “and the bank has to believe it. Banks are still looking for hard cash in the game.”

An exciting area to watch is how the SEC shapes policy this year for “crowdfunding”—a community-investment financing tool made possible by the JOBS Act. Crowdfunding will allow individuals to invest in local businesses and get a financial return, just as we do when we invest in our retirement plans or the stock market. This movement picked up momentum with companies like Kickstarter.com, but those funding sites only offered perks like 50 free cups of coffee for people who contributed $250 to a neighborhood coffee shop (although actually most of Kickstarter's projects were arts or cultural based). Soon we will get a financial return.

Crowdfunding could transform Main Street. Where else in America do people know the local businesses and the entrepreneurs, and know which establishments are needed? Where else do people care so strongly about a place that they are ready not just to buy local but to invest local? Perhaps we will be able to crowdsource a local real estate investment group. Maybe we will be able to finance the coffee shop and dog daycare that will go into the mixed-use building down the street. Maybe we can contribute to the equity of a property so a developer can make a catalyst project in our downtown happen. To see this strategy getting started, check out Fundrise.com, a crowd-equity platform that lets you “invest directly in local real estate and businesses.”

Lastly, a low-tech version of crowdfunding could take place in the form of an investor meet-and-greet event where community leaders and residents who have the interest and the financial capacity to invest in projects can get together with developers and informally discuss a vision for a project and the downtown.

“I was working in Smyrna, Delaware, where we introduced a project to the community at a reception in the historic home of a prominent local attorney,” says Ferrell. “We tried to make people excited about the project and make them feel welcome about investing in this market.

Eight months later when private equity was sought, it came from a number of these people. Excitement about the deal was contagious. When the commercial lender saw the developer had $150,000 in private equity, it made the loan more attractive to the bank.”

**Closing the Financing Gap**

When trying to pencil out a project, there might be a gap between anticipated expenses and anticipated income, which is needed to pay back loans as well as provide a return on investment. The property owner or developer can try to close the gap by changing the scope of the project, perhaps by putting in fewer amenities or creating smaller units or by working in phases.

In many cases, however, projects important to the viability of the community can’t go forward without public intervention to close the funding gap through incentives.
“When you understand the market, you know what the rents and prices need to be,” says Laurie Volk. “If it will cost you more to build those units than the rents and prices the market will bear, your city needs to figure out which policies and programs can be instituted to help make these housing projects happen. So many times people say they don’t want to subsidize developers, but we remind them that even in Manhattan developers are being subsidized—so if they need to do it in New York City, you need to do it in your downtown.

“Work with the city to figure out financial incentives such as:

- Property tax abatement (Seattle puts a twist on this through its Multifamily Property Tax Exemption Program for residential improvements on multifamily projects in targeted residential areas. Participants must set aside 20 percent of the units for moderate-wage earners.)
- Waive permitting fees (choose from development fees to inspection)
- No- or low-interest loans and forgivable loans
- Façade and accessibility improvement grants
- Tax increment financing (TIF) districts
- Expedited review and permitting process
- Sale of city-owned properties to developers at a low cost
- City-guaranteed subordinate loan to help developer buy down the cost of capital
- Use of land bank lots to deeply discount empty lots for new development (Cleveland, Ohio, offers this incentive.)

Find out what incentives might be available from the state and federal government, such as:

- State and Federal Historic Preservation Tax Credits
- New Market Tax Credits
- HUD HOPE VI Main Street Grants
- Rural Housing and Economic Development Program
- Lead Hazard Reduction Demonstration Grant Program
- Rural Capacity Building for Community Development and Affordable Housing Grants
- HOME Investment Partnership Program
- Community Development Block Grants
- USDA Housing Preservation Grants
- Certified Local Government (CLG) funds (Grants awarded through your state preservation office to eligible CLGs can fund preservation-planning work such as National Register nominations, historic structure reports, and building re-use studies).

And don’t forget the power of handholding and education. Providing information and assistance during the development process will create an intangible value for stakeholders. What’s more, as Rick Ferrell points out, having an entity that acts as the liaison, cheerleader, and manager for the downtown is an attractive incentive for investors. Your Main Street organization and the work you do should be a selling point for developers and property owners.

There are strong arguments to persuade municipalities to minimize risk for these projects.

For example, upper-floor and other housing projects can bring your downtown:

- Built-in 18-hour customer base
- Additional tax revenue for the city
- Increased vibrancy
- Increased density in accordance with smart growth
- Increased revenue for property owners
- Opportunity for adaptive-use and other historic preservation projects
- New housing options that appeal to a previously untapped market segment

If residents need motivation to fill vacancies in your community, the city can help with that, too. We already talked about how Detroit employers provide incentives to keep workers downtown, but on a smaller scale, the city of Wellington, Kansas, reimbursed closing costs, gave homeowners a tax rebate on home improvements costing more than $5,000, offered utility discounts, and even threw in free memberships at the community center.

INCENTIVES IN ACTION

To see some of these incentives in action, check out the Upstairs Downtown Case Studies on http://www.illinoishistory.gov. They provide snapshots of upper-floor rehab projects that illustrate the type of work that needs to be done and how much it can cost. The entire website, actually, is a tremendous resource with PowerPoint presentations and handouts that can provide information about topics ranging from feasibility studies to using TIF for upper-story projects.

One example is in Bloomington, Illinois, where the owners of a 4,600-square-foot, two-story downtown building used a matching façade grant from the city to help pay for a fire escape so they could reuse the upper floor. The total rehabilitation cost $175,000, of which 60 percent was spent on the two-bedroom.
apartment. The owners were able to use the 20 percent federal historic rehabilitation tax credit, which gave them a $35,000 credit on their federal income taxes, thereby lowering the cost of the upper-floor project from $63 per square foot to $38.

While it is not a housing project, the owners of an 1898 YMCA building in downtown Galesburg, Illinois, turned the two upper floors into office space and used a 50 percent Disabled Access Tax Credit to install a $60,000 elevator. The annual cap on the credit is $5,000, so they phased the installation over two years to maximize the benefit.

Rock Island, Illinois, has been a long-celebrated example of a city that has successfully used tax increment financing to fund an upper-story housing loan program to boost downtown housing, improve the appearance of downtown buildings, and upgrade existing housing units. Once the program was approved in 2002, it budgeted $160,000 in TIF money for upper-story rehabs. Projects in Rock Island are required to have a commercial first-floor use, the apartments must be market rate, and changes have to follow downtown design guidelines. The property owner receives a zero-percent, five-year forgivable loan and can use the incentive money to cover all interior and exterior work, as well as appliances and soft costs, such as architectural fees. Only 40 percent of the project can be funded with TIF money; the remainder needs to come from private funding sources. The program offers assistance as well, teaching the client how to select an architect and estimating the property owner’s long-term expenses as a landlord.

These examples demonstrate the need to seek money for housing projects from a variety of sources. One such source can be the state. The Michigan State Housing Development Authority, which also houses the statewide Main Street program, has launched a Rental Rehabilitation program that channels funding to eligible property owners who want to build out rental units in their buildings.

You can find details of the program at www.michigan.gov/mshda, but according to the website, the basics are:

- Funding from property owners covering at least 25% of project costs
- Affordability at initial occupancy
- $35,000 per unit maximum for the creation of rental units in previously non-residential space
- $25,000 maximum for any unit in legal residential use and occupied during the last five years

The Manistee Downtown Development Authority and the City of Manistee took advantage of this program in 2007 to help property owners renovate 15 rental units and bring housing back to downtown’s upper floors. Since that time, the commercial district has seen 12 net new businesses open up and $3.6 million in reinvestment. The total number of units in this small downtown has risen to 51.

The City of Baltimore’s PILOT program offers property tax abatement to developers willing to convert vacant buildings into housing. The downtown’s apartment occupancy rate hit 97.2 percent in 2011, which signaled to the city an increased demand for housing. The former Baltimore branch of the Federal Reserve Bank, a gorgeous 11-story Beaux-Arts building that has been vacant since 2008, will bring 106 apartments and ground-floor retail to market. Once the project is completed, the developer will get an 80 percent reduction in property taxes for 10 years, a 50 percent abatement for years 11-15, and then stepped-down reductions through year 20, which can save the developer as much as $4 million. The developer will also use historic tax credits and state enterprise zone credits for this $19 million project.

PUTTING IT ALL TOGETHER

At the end of the day, Main Street revitalization is largely a series of business deals. To put together a deal, you have to understand real estate basics, have current market data on hand, have a vision and a plan, and figure out ways to close financial gaps standing in the way of business deals important to your district. You need to know a lot more than just housing to realize the fullest potential of urban living in your community.

With consumer preferences changing and demographics shifting, now is the time to make a move. There are changes happening in our society that could open new doors for your community. It is your job to open those doors, create new opportunities, and celebrate the successes.

Main Street and its work should be a strong selling point for developers and property owners. Having an entity that acts as liaison, cheerleader, and manager of the downtown is an attractive incentive for developers.

Andrea L. Dono is the former manager of research and training for the National Trust Main Street Center. As a freelancer, she continues to support Main Streets by providing technical assistance to local communities, speaking at conferences, and blogging at http://citythrive.blogspot.com.