

# Corporate Partner Spotlight

As part of the "Friends of ILCMA" Corporate Partnership Program, partners at the highest level get the opportunity to submit a one-page written educational piece in the ILCMA newsletter.

## Keys to Achieving Transformative Development Projects

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Led by a community-wide or area plan, citizen activism, or developer initiative, many municipalities have sought to bring about transformative development projects in support of community goals. Unfortunately, many have also shared the frustration of unsuccessful efforts. Perhaps your community wishes to activate a multi-use town center, spur redevelopment of a major industrial site, or attract a destination sports facility or event center. Maybe you have established a TIF or Business district as an "incentive in-waiting" and generally promote the area. You may have acquired some land and even undertaken an RFQ/P process to attract developers. What are the keys to achieving a successful project?

**More than a Plan.** Successful projects go beyond traditional planning to establish a realistic and economically-feasible vision shared and supported by the civic and governmental community. This requires detailed market and financial analysis, site analysis, test-fit/capacity-level site planning, and community engagement. The project should have demonstrable fiscal and/or community benefits. A "believable fiction" for the project, endorsed by the governing body after obtaining broad support, lays stronger groundwork for attracting the right developer.

**Who Has Site Control?** The public sector does not necessarily have to own or acquire the development site, but it must have a strategy for site control and making the site "development ready." If separately owned parcels are required to achieve the vision, the public sector may need to facilitate site assembly. If a developer controls part of a site, the municipality may need to help complete the site, even using eminent domain or the threat of it ("friendly condemnation"). It also may be required to undertake site cleanup or preparation.

**With Whom Are You Dealing?** One of the most significant challenges in transformative projects is ensuring a developer with the capacity and experience to complete the project. Even in proactive developer solicitations, many communities have been attracted to a team with creative graphics and force of personality. Whether seeking a developer through RFQ/P or being approached by a developer, careful review is required, including: experience with similar projects, financial capacity, relationships with key users (retailers or hotel chains), financial relationships,



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design and construction expertise, and leasing/management experience. Legal searches are needed to identify prior problems, bankruptcies and IRS liens that may make it difficult for an otherwise capable developer to obtain financing.

**Sharing Financial Risk and Reward.** Both the public and private sectors have responsibilities in financing projects. Public assistance should be based on the "but for..." principle, through analysis of the project's pro forma. Structuring of the assistance must be both realistic for the project and protect the public sector. Financially weak developers may ask for General Obligation (GO) bonds or backing of TIF bonds because they do not have the capacity to monetize developer notes. While GO bonds may be appropriate for public land acquisition or truly public infrastructure, they rarely are for a private project: it is simply too much risk. The developer should be able to raise debt and equity for the project, and monetize the pay-as-you-go or developer note assistance. In this case, developers are entitled to enjoy all or most of the upside of a project (perhaps after a true-up) as reward for the risk they have taken, unless the public sector has brought up-front sources or discounted land to the project.

Transformative projects are almost always intrinsically difficult; if they were not, the private sector would undertake them alone. For the public sector to increase its chances of success, it needs a realistic project. Site control and pre-development challenges must be addressed, and the utmost care must be taken to properly screen and evaluate the capabilities of the developer. Risk must also be shared with the private partner.

More information on these ideas can be found in the recent Urban Land Institute publication, Successful Public Private Partnerships: From Principles to Practices, which can be found on SB Friedman's website at [www.sbfriedman.com](http://www.sbfriedman.com) or at <https://uli.org/centers-initiatives/successful-publicprivate-partnerships/>