Creating Economic Anchors in Your Community

How a Quasi-Government Entity (tote) Bagged the First Trader Joe's in Central Pennsylvania

American Planning Association

Pennsylvania Chapter

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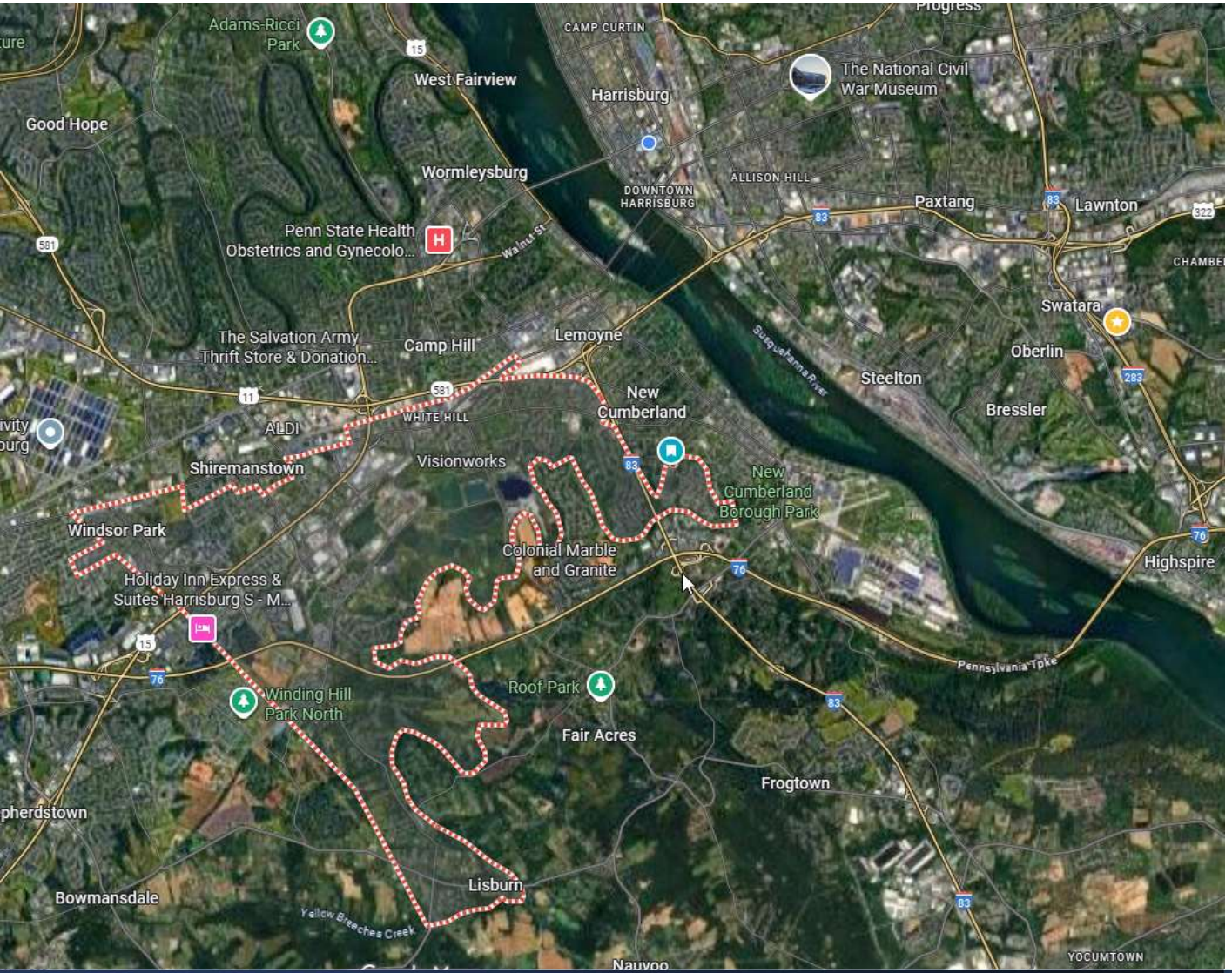
Learning Objectives

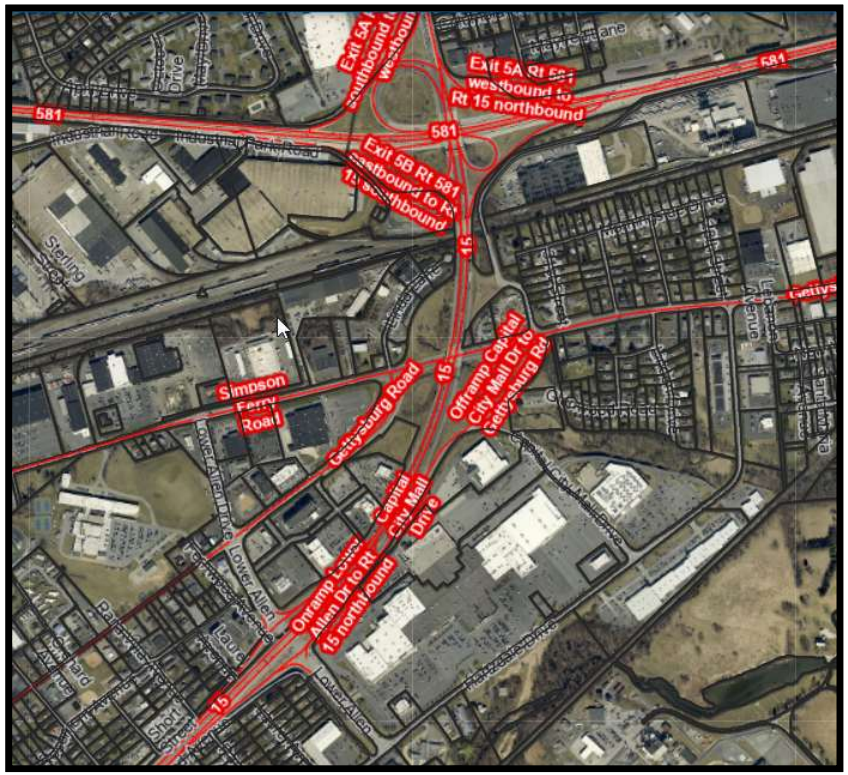
- Understand:
  - The Importance of a Comprehensive Plan in Economic Development
  - The Potential Roles of Local Government in Economic Development
  - How the Market Hinders or Helps Growth
  - How to Structure an Economic Development Project Based on Defined Project Goals
  - The Project Roles and Team for a Redevelopment project
  - Unforeseen Challenges & Benefits in Development
  - Resolving the Competing Interests of Planning and Economic Development

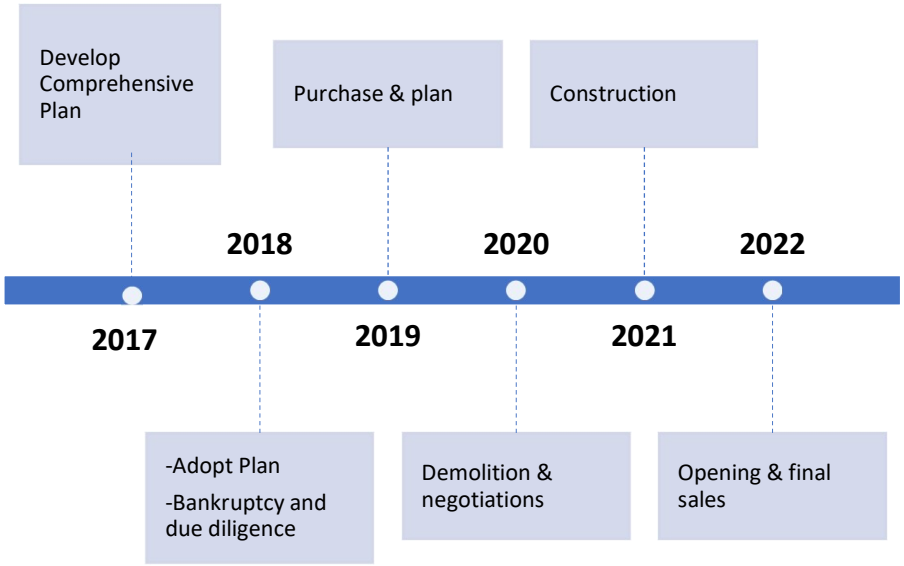


Lower Allen Township

- 10 square miles
- 20,000 residents
- 2nd ring suburb
- Big growth in late sixties- mid seventies (1965-1975)
- Mostly built out
- Need for redevelopment

Redevelopment Timeline





Importance of A Comprehensive Plan in Economic Development

Identify important sites in the community

Gateways

Highly Visible

Large Tracts

Symbols of Vitality

Identify key businesses

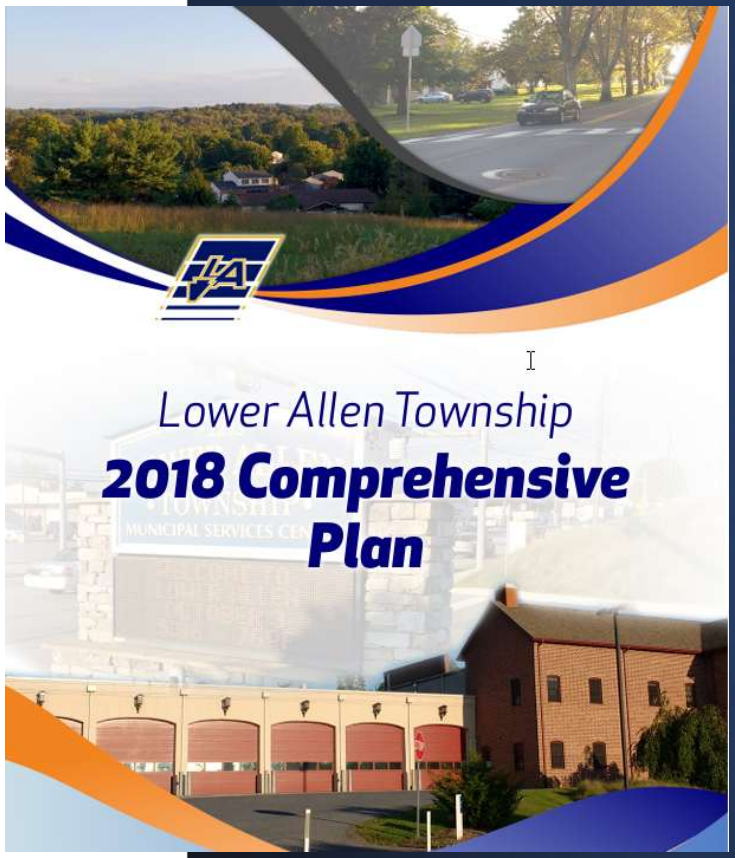
Large employers

Traffic generators

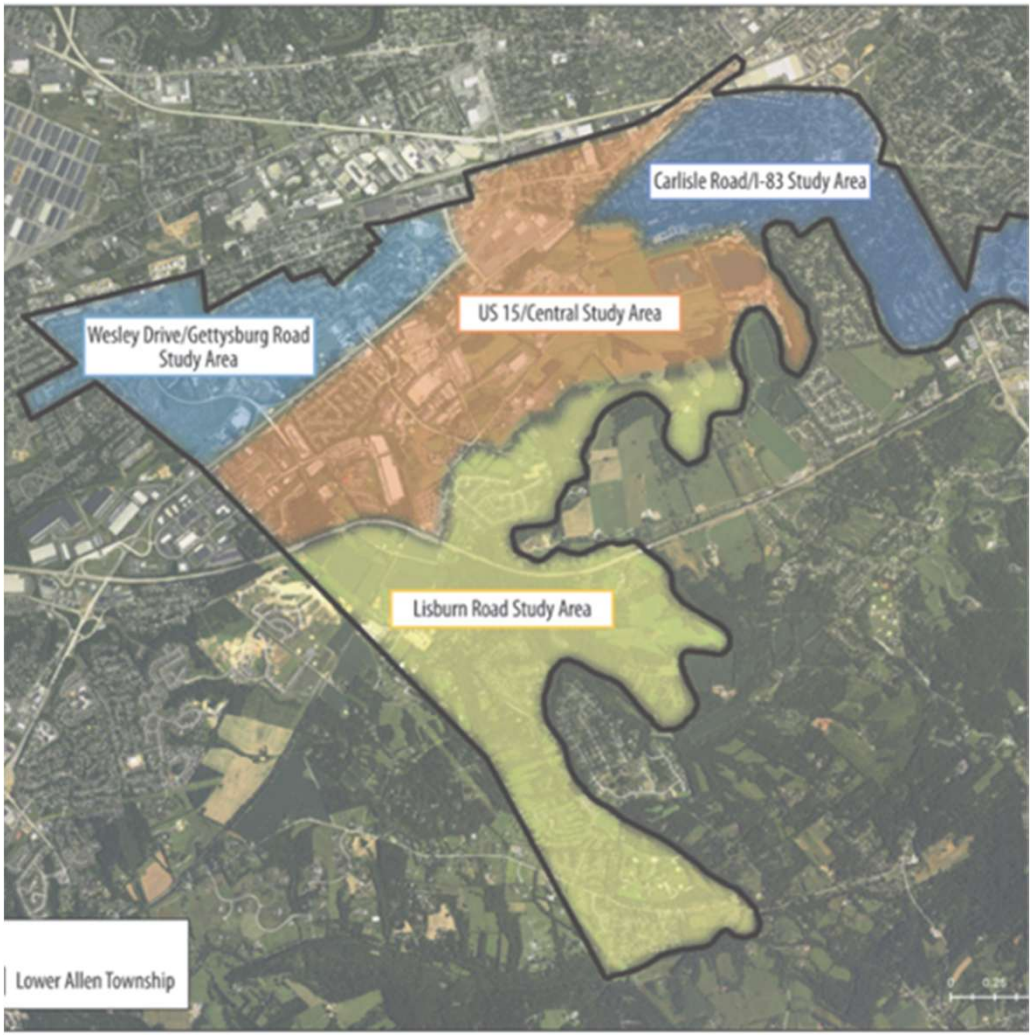
- Cars
- Foot

2018 Lower Allen Comprehensive Plan

- Goal 1: Enhance the Township's existing residential neighborhoods *and community parks*
- Goal 2: Promote a balance of open space preservation and the development and redevelopment of commercial and industrial areas
- Goal 3: Expand pedestrian and bicycle connections throughout the Township
- Goal 4: Maintain the Township's existing transportation infrastructure



– 2018 Comprehensive Plan Study Areas



Redevelopment Surrounding Capital City Mall

With national trends showing mall properties as underperforming assets that are struggling to maintain sales amidst the raise in online shopping, Lower Allen should be strategic and promote diversification of the Capital City Mall area. While the mall is defying national trends and doing well, opportunity exists for the Township to evaluate mixed use redevelopment opportunities surrounding the Capital City Mall. Mixed uses, such as residential and office, would diversify the Township's regional attraction and increase densities to further promote foot traffic and sales.

As one potential opportunity, the former Borders Book store adjacent to the Bon Ton has remained vacant for years. The land is owned and operated by Bon-Ton along Lower Allen Drive, and includes not only Bon-Ton, but two restaurants including Bonefish Grill and Texas Roadhouse. The area is zoned Regional Commercial (C-4) and would be a strategic location to promote redevelopment to enhance retail offerings at Capital City Mall. Streetscape improvements and additional branding could extend beyond the Bon-Ton property west along Gettysburg Road to complement well-established boutique shops.

Economic Development 1.3.
Meet with the Bon-Ton property owners to determine the potential to redevelop the property to complement surrounding retail development.

Roles for Local Government in Economic Development

Use Zoning and Subdivision and Land Development Ordinances to incentivize private developers

Work with regional entities to be more involved in economic development

Regional Economic Development Organizations (EDOs)	Economic Development Corporations (EDCs)	Industrial Development Authorities (IDAs)	Redevelopment Authorities

Create own Development Authority for most control

Lower Allen Township Development Authority

- Incorporated under the Economic Development Financing Law (Act 102) of 1967
- Formed in 2008
- 5-person Board
- Appointed by Board of Commissioners
- Staggered 5-year terms
- Borrowing authority
- Hold or own land
- Enter into contracts
- Acts independently

Pros and Cons of Forming a Development Authority

Pros

- Economic development is longer than an election cycle
- More nimble than government for negotiations
- Proactively invest in your municipality
- Focus on redevelopment
- More control of development
- Local involvement vs. regional
- Timely responses

Cons

- Staffing
- Political will
- Funding
- Market competition with private developers
- Risk

NEWS

Bon-Ton Stores files Chapter 11 bankruptcy as department stores

Nathan Boomey USA TODAY

Updated Feb. 5, 2018, 2:24 p.m. ET

- February 26, 2018- Comp Plan adopted
- April 18, 2018- Bon-Ton's assets awarded to A&G Realty Partners in Bankruptcy Court
- May 9, 2018- A&G announces it will liquidize assets through a bidding process and is accepting Letters of Interest through the end of June.

The Site

- 14 acres
- Burger King
- Bonefish Grill
- Texas Roadhouse
- Bon-ton
- Borders Books
- Site located along Rt. 15 with 70,000 ADT (highly visible)
- Center of commercial core
  - Mall
  - Business park
  - Shopping center

Understanding Market Forces

Why is there a vacancy?

Disinvestment in the area

OR

Block Competition

Highest and Best Use

Private developer does not require highest and best use of a site

May be an investment property to be held for a long time

Just need to cover carrying costs

Project Goals and Structure

- Long-term Ownership → Investment paid overtime through leases
- Redevelop and sell (shorter term) → Investment paid through the sale
- Public/Private Partnership (P3) → Negotiate fees and structure with a developer for ownership transfer

Project Goals

- Looking for highest and best use
  - Bring people and new energy into the Township
  - Revitalize the core with this anchor
  - Let private developers do the rest
- Seek private development partner
- Did not want to own
- Not looking to make money- looking to increase property values

Concept & Proforma

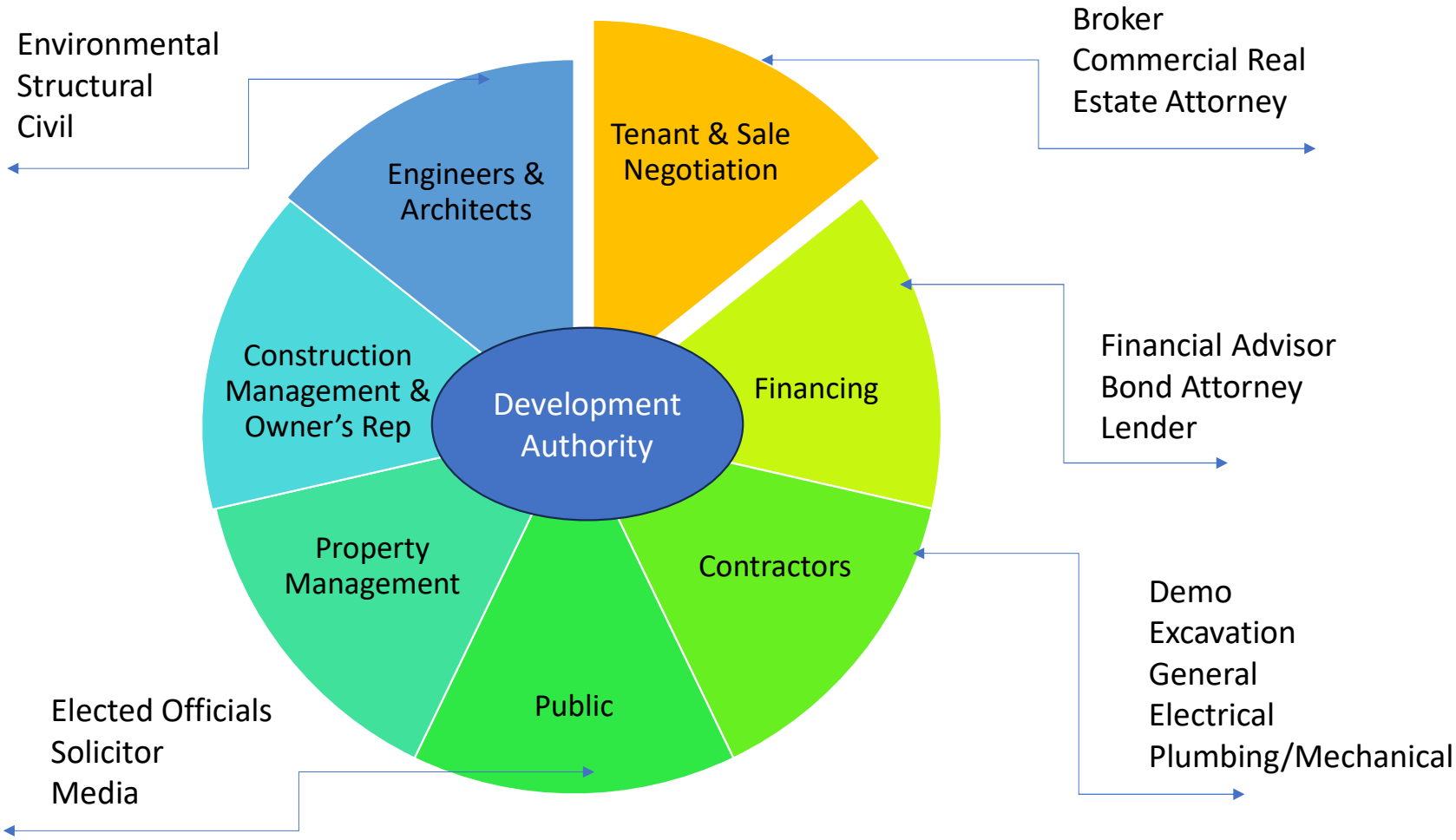
- Development Authority needed the support of the Board of Commissioners
- Idea for the site was a hotel and conference center
- Presented financials for that idea
- Submitted a Business in Our Sites grant to support the idea

Proforma: Property A		Historical	Projected		
		2022	2023	2024	2025
Revenue					
Rental Income	+	988,525	1,015,000	1,020,000	1,040,000
Vacancy Allowance	-	0	5,000	8,000	8,000
Concessions	-	0	2,000	2,000	2,000
Effective Gross Income	=	988,525	1,008,000	1,010,000	1,030,000
Expenses					
Management Fees	-	3,000	3,150	3,300	3,350
Operating Expenses (e.g., legal fees, insurance, utilities, etc.)	-	147,802	150,000	158,000	163,550
Property Taxes	-	105,500	110,775	116,314	122,129
Total Expenses	=	256,302	263,925	277,614	289,029
Net Operating Income	=	**732,223**	**744,075**	**732,386**	**740,971**
Debt Payments					
Interest	-	223,357	242,877	263,559	304,828
Principal	-	178,686	194,302	210,847	243,863
Total Debt Payments	=	402,043	437,179	474,407	548,691
Cash Flow to Equity Investors	=	330,180	306,896	257,980	192,280

Acquisition Process

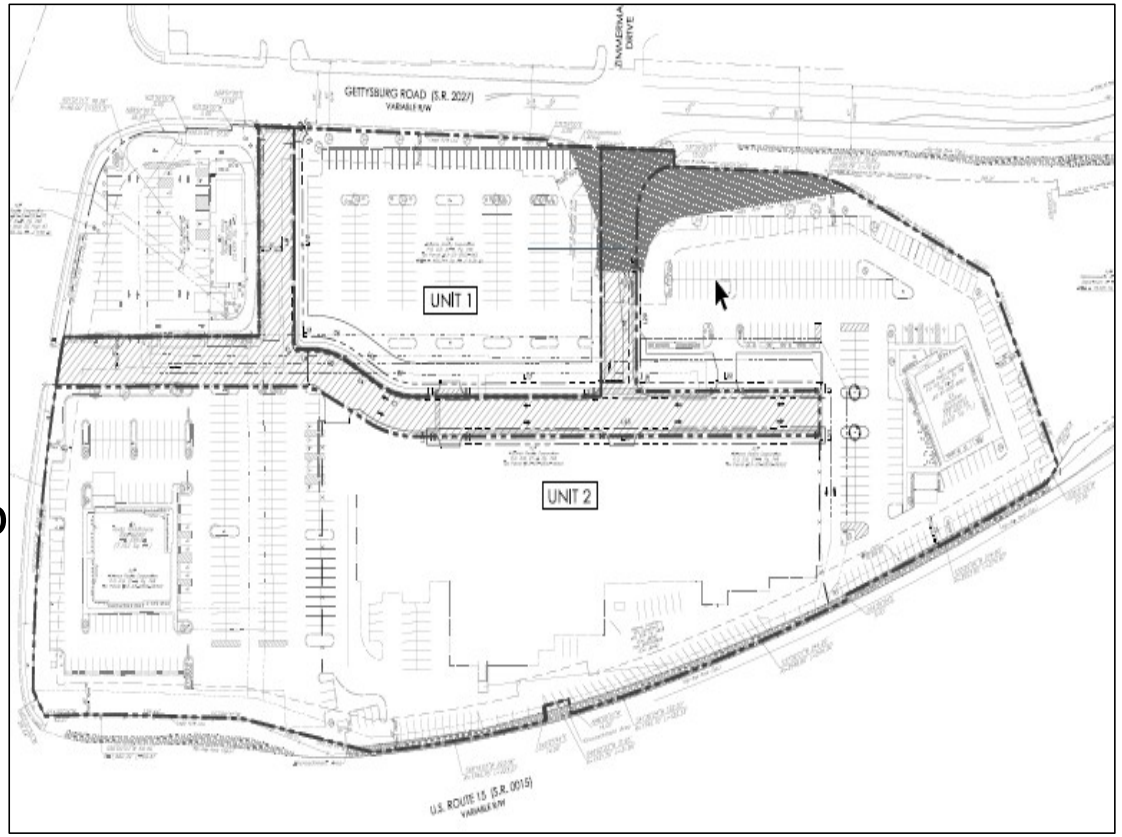
Broker	Professional Service Licensing
Letter of Intent (LOI)	10% Good Faith
Due Diligence	Environmental Assessment Parcel Ownership
Renegotiate	Reduced Price

Project Roles



Real Estate Strategy

- Collapse existing commercial condominium
- Create six units
- Hotel on separate parcel
- Create new condo with six units
- Change all leases to triple net to attract investment



Financing

- Worked with public financial advisor
  - Amount needed to borrow
  - Terms
  - Rates
  - Relationships with banks
- Township guarantee
  - No Subordination, Non-Disturbance, and Attornment (SNDA) agreement
- Used bond attorney to underwrite the loan and prepare disclosure documents
- Closing- mid January 2019

Burger King Sale

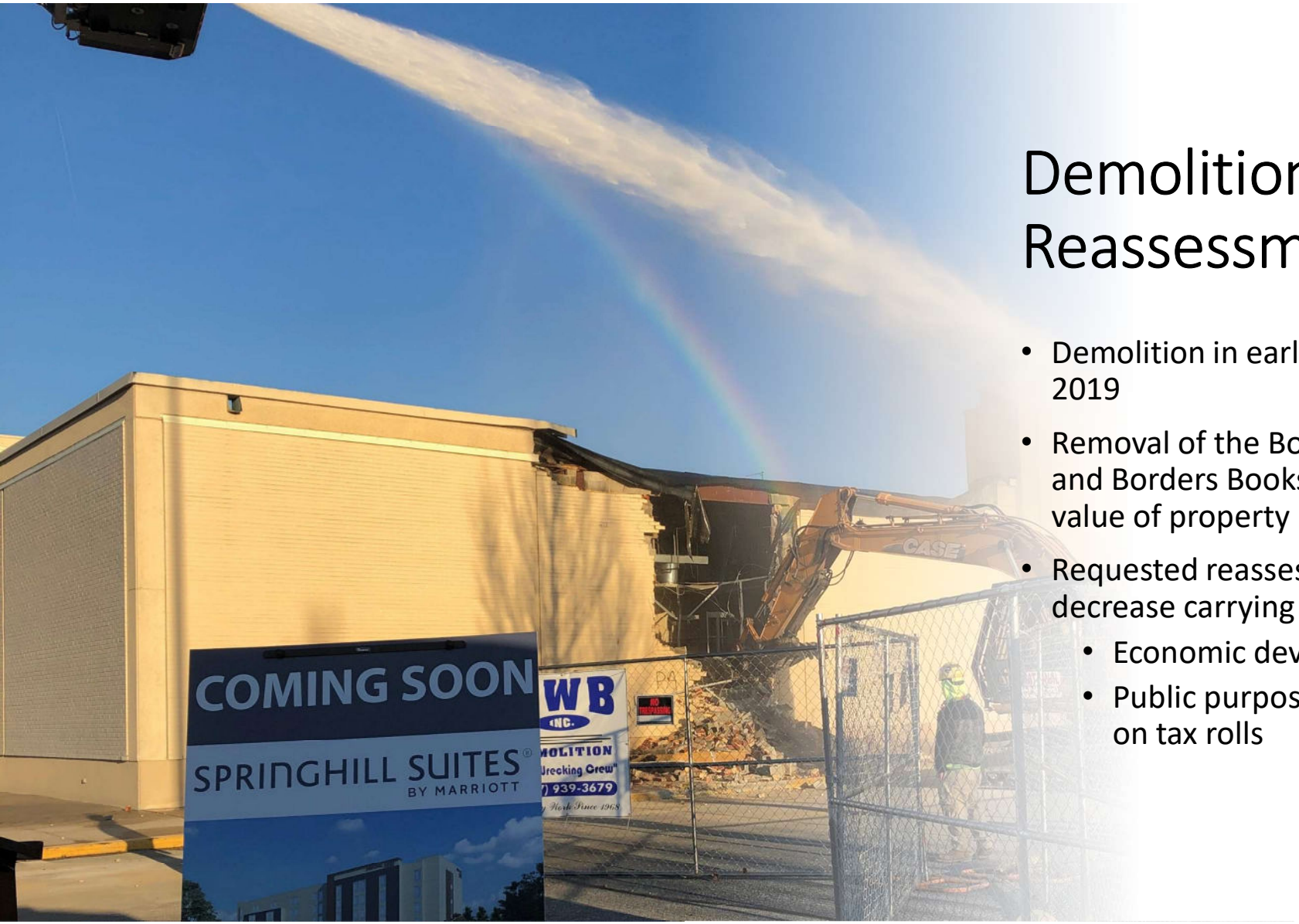
- Renegotiated lease with Burger King
  - Rent escalated during our ownership period
- Sold off the parcel (lease conveyed) to private investors
- Sale of the Burger King paid for most of the carrying costs for the first year of the project
- Saved money by not drawing on loan

Property Management & Carrying Costs

- Land leases with Burger King, Texas Roadhouse, and Bonefish Grill
- Common Area Maintenance (CAM) Fees
  - Snow plowing
  - Stormwater fees
  - Municipal and school taxes
  - Parking lot lights
  - Parking lot
  - Insurance
  - Landscaping & Mowing
- Commercial Condominium
  - Condo meetings
  - Condo Board

What Can You do with a Vacant Department Store?

- Police held exercises
- Fire department trainings
- Unique assets
  - Rug rack



Demolition and Reassessment

- Demolition in early November of 2019
- Removal of the Bon-Ton Building and Borders Books decreased value of property
- Requested reassessment to decrease carrying costs
  - Economic development
  - Public purpose to get back on tax rolls

Unforeseen Challenges

- Pandemic hits
  - Construction shuts down
  - Partially through demolition
- Able to get an exemption after a month to finish demolition for safety reasons
- Caused delay to hotel sales agreement
- Made finding a development partner difficult
- Development Authority became developer
- Brought on a construction manager/owner's rep
- Did not get grant
- New concept –hotel with retail

Cleared Site

Grading and Excavation

- Lay utility trenches
- Laying a gravity sewer line for 400ft to replace old booster station
  - Required coordination to keep water and sewer working for restaurants while switching over
- Moving of an electrical transformer
  - Required overnight switch over for restaurants to open at regular hours

Tenant Negotiations

- Used our broker to bring retailers and investors
- Reviewed offers from several developers that specialize in hotels
- Accepted offer from Springwood Hospitality which was developing a SpringHill Suites by Marriott
- Trader Joe's
  - Parking
  - Default of other businesses
  - Security
  - Deliver building
  - Co-tenant restrictions
  - 12,500 sq. ft.

Tenant Negotiations

Chick-Fil-A	• Drive-thru circulation • Parking • Non-competes • In negotiations with another developer
Apricot Lane	• Franchise • New Business Owner
The Good Feet Store	• Franchise • Owned another store in Lancaster
Sports Clips	• Franchise

Chick-fil-A®

Apricot Lane® BOUTIQUE

The Good Feet Store®
America's Arch Support Experts

SportClips® HAIRCUTS

Why Trader Joe's Came Here

- Need for redevelopment kept us at the negotiating table
  - Private developer probably would have walked
- No SNDAs
- Less risk through the land development and approval process
- Secure site
- Because of prior planning we mobilized faster than other developers
- Great site and location
- Were looking to expand into Area

Building a Trader Joe's

- Lease requires the building be delivered to the company
- RFP for architect
- Separate primes
  - General Construction
  - Electrical
  - Plumbing/ Mechanical
- Prevailing wage
- Delivery dates and black out dates
- Materials shortages due to COVID 19
- Weekly meetings
- Punchlist
- Trailer

Results

- Opening day line wrapped around the building
- Voted one of the biggest stories of the year (2022) by PennLive
- Won an award for Excellence in Local Government from the Governor's Center for Local Government Services
- Generated $1.5M for the Development Authority to reinvest
- 2019 Taxes
- 2024 Taxes
  - $232,184

Results

Before Redevelopment

After Redevelopment

Planning vs. Economic Development

Planning Ideals

- Support local business
- Sidewalks to improve connectivity
- Better pedestrian routes
- Mass transit coordination
- Create community gathering space
- Permitting, inspections, approvals

Economic Development

- Needed known entity for investment
- Lot sizes and configurations
- Common area maintenance and fees
- Lease obligations
- Cost of time, penalties

Key Points

- INVEST IN YOURSELF
- IT IS A RISK
- WHAT HAPPENS IF YOU DON’T ACT?
- SEEK EXPERTS
- CREATE THE TOOLS AHEAD OF TIME
- GOOD PLANNING
- COMMUNICATION

Questions?

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