

# Surviving in a Transitioning Economy: Land Assembly Strategies for Better Planning Now

Prepared by

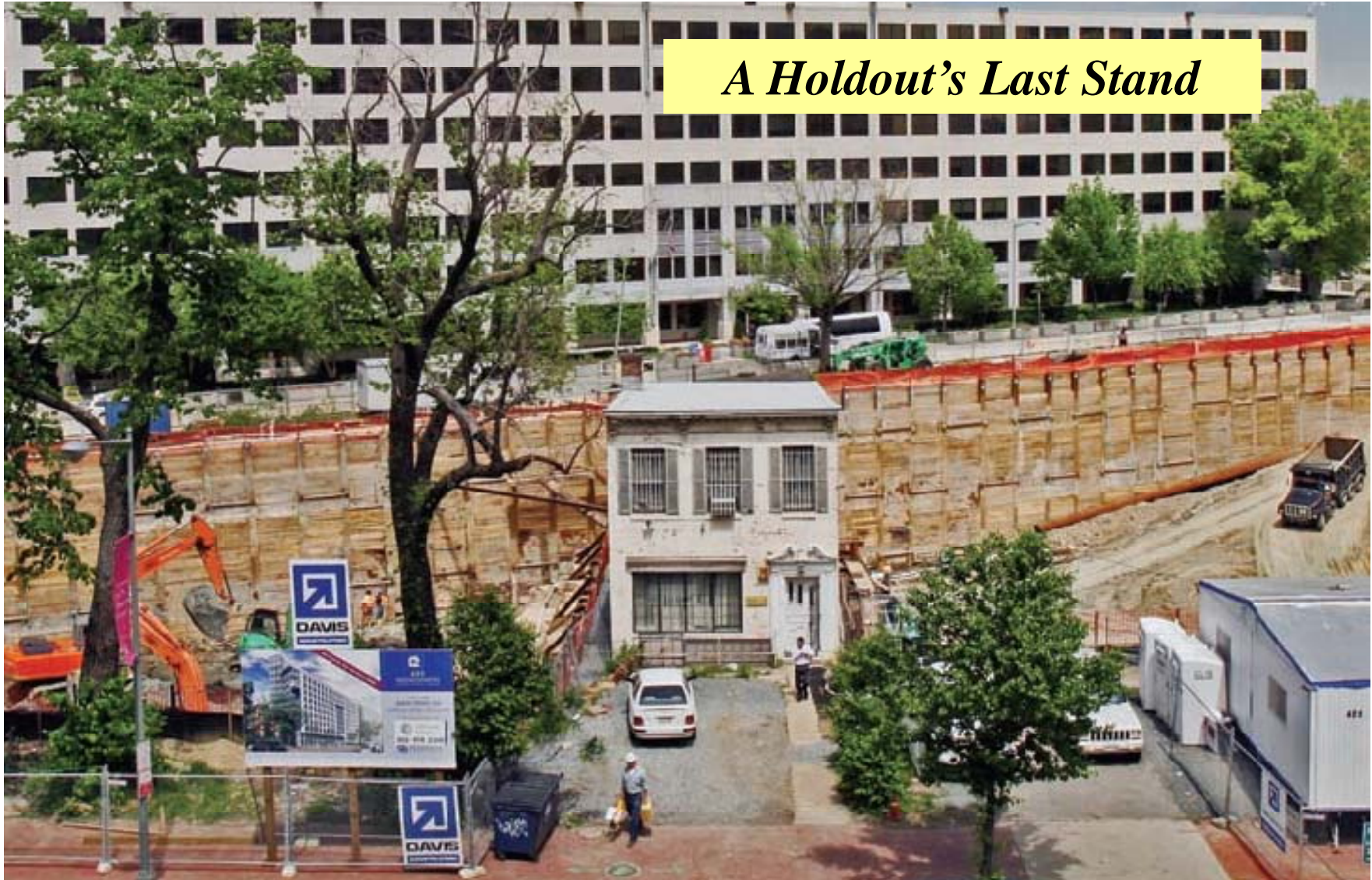


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*A Holdout's Last Stand*



## AGENDA

- About BBPC
- Barriers to Land Assembly
- Innovative Land Assembly / Financing Techniques
- Emerging Model for Land Assembly → Equity Investment Approach
- Possible Approach Constraints
- Case Studies
- Questions?





## **About BBPC**

- Real estate economics advisory firm with national practice
  - Offices in 5 locations
  - Largest firm of our type in US
  - Staffed with MBA's, JD's, AICP's, LEED's (late 2009)
- Specializes in structuring public-private partnerships
  - 48 states, 1,250 clients
  - Over \$11B of investments successfully packaged
  - Many projects are sponsored by public clients and occurred in redevelopment areas
- Project types: commercial, residential industrial, recreational, others in single use/mixed use configurations
- Projects include small (new single purpose, adaptive reuse, etc.) and large endeavors (Mall of America, privatization of over 65,000 residential units for DOD, others)
- Long time FRA member and active participant

## Barriers to Land Assembly

- Private property owners uninterested/unwilling to sell
  - Conflicting objectives
  - Money vs. other reasons
- Finding capital: financing land assembly challenging because of no demonstrable short-term revenue stream
  - Need for *patient money*
  - Land banking
- Speculative rush pushes up land values
  - Clandestine approach (straw men) to land assembly (e.g. Disney World)
  - Announced plans of area tend to raise land value expectations

## **Barriers to Land Assembly (con't)**

- Acquisition Costs – property owner expectations of the value of their land
  - Price of individual parcel v. the value of all of parcels assembled
  - Existing value v. reuse value
- Ownership
  - Fractured
  - Absentee owners
  - Title issues
- Structural government barriers
  - Difficulties of transferring government-owned property with/without competition
  - City and County having jurisdiction over same property (taxation handled by one and redevelopment by another)

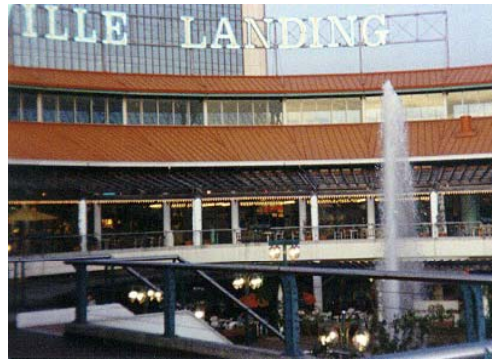
## Barriers to Land Assembly (con't)

- Inflexible zoning / regulatory environment
  - Often lengthy period to get site assembled, entitled, zoned, platted and approved
- Legal issues: takings, due process and the use of eminent domain (e.g. *Kelo v. City of New London*) to expropriate property from private owners
- Not planning for infrastructure concurrently with land assembly process (NIMBYism reaction)



## Innovative Land Assembly / Financing Techniques

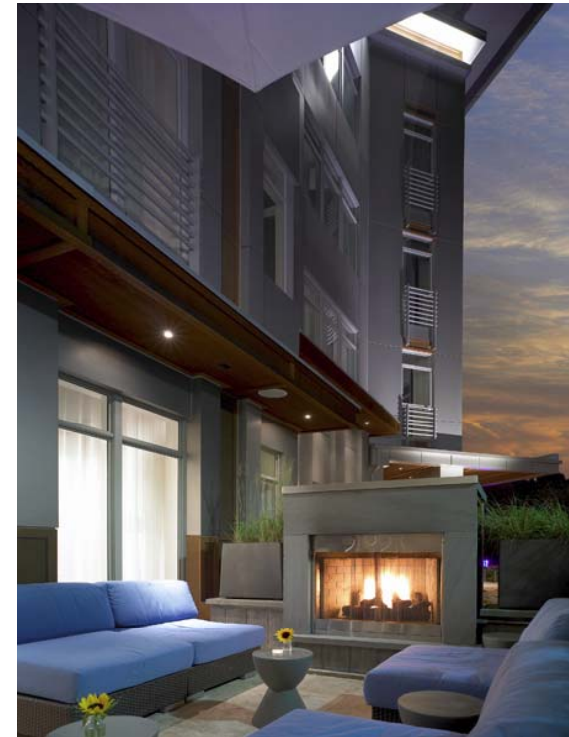
- State housing finance agency funds have shown to be effective sources of capital and leverage money for land assembly (e.g. affordable housing)
- Brownfield funding offers model for funding of land assembly (e.g. EPA pilot grants, clean-up funds, etc.)
- California cities use TIFs to assemble land
- Corporate and family foundations (patient money)





## **Innovative Land Assembly / Financing Techniques (con't)**

- Private sector incentives (density bonuses, rezoning, taxes, etc.)
- Most innovative land assembly financing techniques built on public/private partnerships
- Incentives for owners
  - Tax issues
  - Value expectations
- Like Kind Exchanges (1031)



## **Emerging Model for Land Assembly**

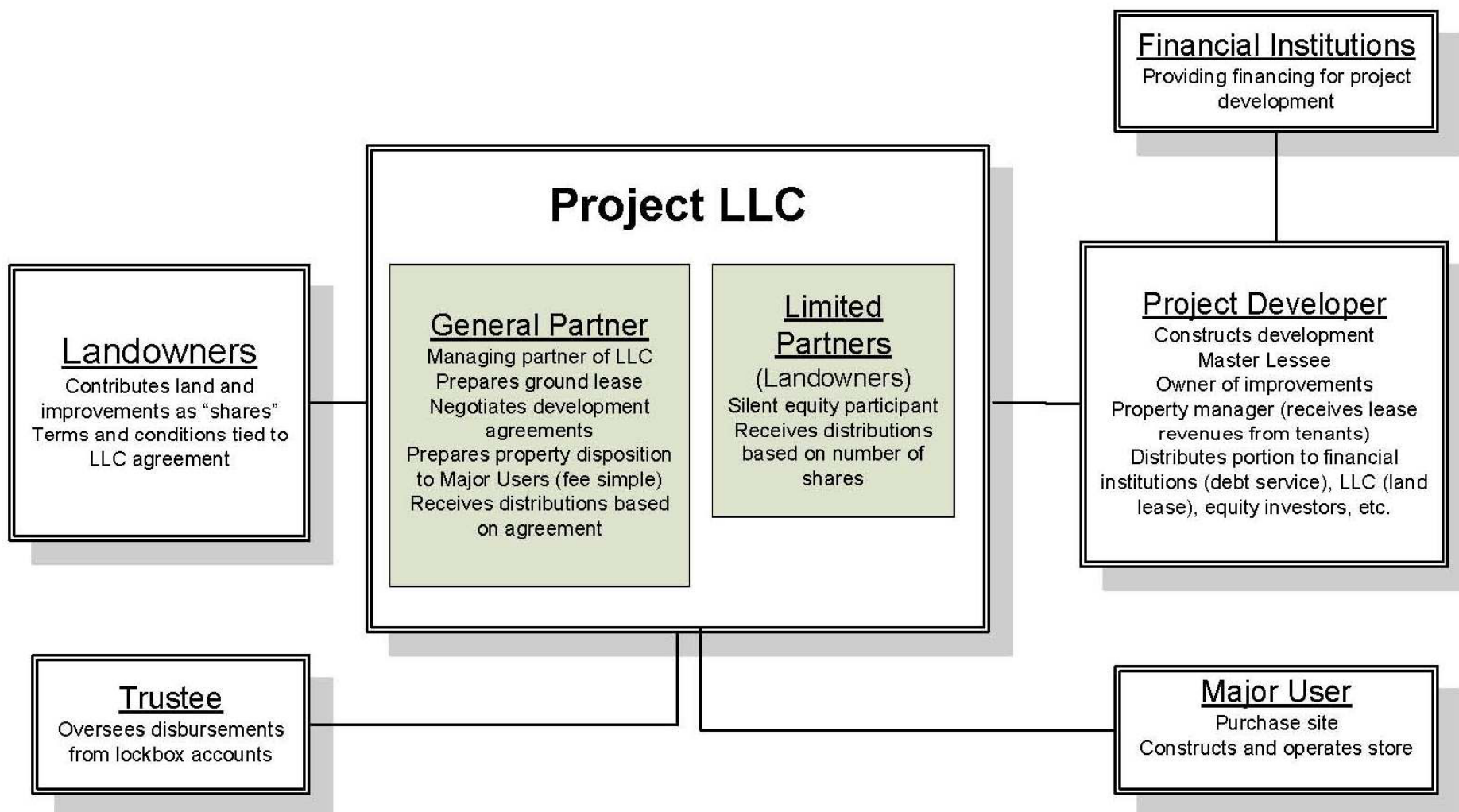
- Turning the landowners into pro rata shareholders in a development entity that would acquire unified ownership and the development project
- New development entity could be LLC or special purpose development corporation
- Landowners could receive shares based on the proportional “value” of contributed assets
- Shares would reflect market value of the entire development project, not just their parcel
- Equity Investment Approach would allow landowners to participate in upside of development project

## **Equity Model for Land Assembly (con't)**

- Landowners contribute their land (and improvements) as “shares” and receive a portion of the distribution from cash flow generated
- Value of the asset
  - LLC shares
  - Cash & LLC shares
  - Cash
- Vertical developer pays long term ground lease
- Opportunity for all parties to participate in project's upside
- LLC business entity minimizes landowner risk exposure



## Equity Model for Land Assembly (con't)



## Possible Approach Constraints

- Pre-Contribution Capital Gains: if land value exceeds tax basis of the property, such a gain must be attributed not to the group of landowners comprising the LLC's Investor Member, but to the individual property owner experiencing the gain
- Unrelated Business Income: tax-exempt property owners may experience generation of unrelated business income on profits unless a "qualified allocation" is made within the LLC; tax exempts can not shift losses to taxable LLC members
- Asset Protection: may be beneficial to consider a "series LLC" to hold on multiple parcels of real property in liability-segregated cells, and transfer each property by deed to a separate series for asset protection purposes
- Tax on LLC Interest: usually a deed for an LLC interest in same property is not immediately taxed .... GET TAX AND LEGAL ADVICE!

# Case Studies





<u><b>Name of Project</b></u>	<u><b>Location</b></u>	<u><b>Project SF</b></u>	<u><b>Project Acres</b></u>	<u><b>Uses</b></u>
Science Center Begun: 1963 Completed: On-going but nearly fully built-out and occupied	Philadelphia, PA	2.0M	17	university research buildings 100 companies, 7,500 workers 3 incubators with life science tenants



**Land Assembly:** For Building 3701 (started in 2000, completed in 2001), Science Center contributed the land (\$4.4M) and some equity (\$6.8M) to the \$76M total project cost; developer matched the Science Center investment with investment in building financing and development costs; the two were then 50/50 partners with the developer being the General Partner responsible for project development, and the Science Center taking a Limited Partner role; other public contributions of \$30M; 100% leased

<u><b>Name of Project</b></u>	<u><b>Location</b></u>	<u><b>Project SF</b></u>	<u><b>Project Acres</b></u>	<u><b>Uses</b></u>
Skyland TOD at Anacostia Metro Station Begun: 2007 Completed: On-going	Washington, DC	915,000	18.5	315,000 SF of retail 600 residential units \$125M project



**Land Assembly:** 17 different parcels controlled by 15 property owners; 30 different tenants, including 1940's –era Skyland Shopping Center; NCRC formed a \$150M “strategic equity partnership” with Morgan Stanley to provide investment capital and is receiving \$40M in TIF financing to help assemble land



<u><b>Name of Project</b></u>	<u><b>Location</b></u>	<u><b>Phase I SF</b></u>	<u><b>Project Acres</b></u>	<u><b>Phase I Uses</b></u>
New Town at Capital City Market Begun: 2007 Completed: On-going	Washington, DC	290,000	24	116 residential units 45,000 SF office 47,000 SF retail Underground parking garage



**Land Assembly:** 45+ property owners; once designated developer controls 50% of land, remaining land can be acquired through threat of condemnation; land assemblage plan calls for existing property owners and/or lessees to invest in project as equity owners and participate in like-kind 1031 property exchanges



<u><b>Name of Project</b></u>	<u><b>Location</b></u>	<u><b>Project SF</b></u>	<u><b>Project Acres</b></u>	<u><b>Uses</b></u>
Alliance Industrial/Business Park Begun: 1986 Completed: 2015 ( <i>Expected</i> )	Fort Worth, TX	6.0M	7,500	Airport Warehouse/Industrial Office Research & Development Retail \$1.9 Billion public & private investment



**Land Assembly:** Landowners formed separate development entity (Alliance Development Company) responsible for: land assemblage, financing preliminary infrastructure development, selling development parcels, and asset management of land holdings slated for later-phase development; the Alliance Development Company donated large parcel to the City of Fort Worth for the creation of an airport and supporting facilities

**Name of Project**

Sandia Science &amp; Technology Park Albuquerque, NM

Begun: 1998

Completed: ~ 175 acres available

**Location**

Albuquerque, NM

**Project SF**

900,000

**Project Acres**

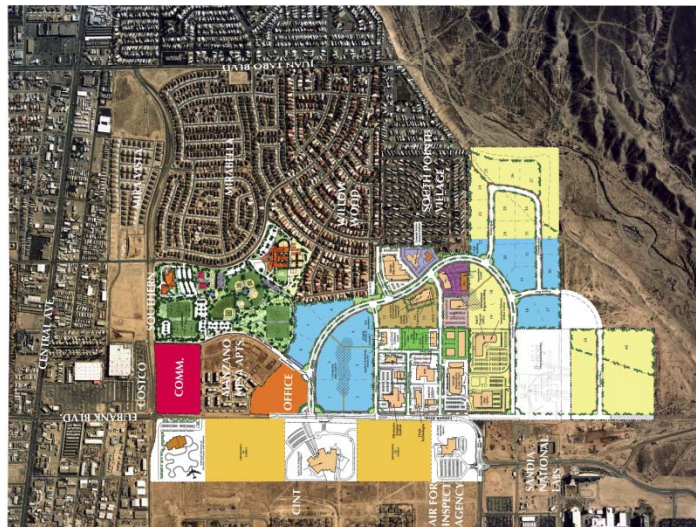
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**Uses**

 Research & Development  
 Office

Day Care Center

\$311M investment



**Land Assembly:** The Park is managed by the SS&TP entity, funded by Sandia National Labs; the land in the Park is owned by three different property owners: Albuquerque Public Schools, New Mexico State Land Office and Build New Mexico/Union Development Foundation (private); the three entities entered into a Memorandum of Understanding (MOU) committing their land to the SS&TP project; as each parcel is sold/leased to a company or developer, that “client company/developer is responsible for the infrastructure for their site; each landowner receives one vote for every acre they own; operating agreement states that until 70% of the land is owned by someone other than the current major landowners, voting control stays with the SS&TP; in addition to the MOU, a Master Plan governs development of the Park, acceptable uses and design standards; the SS&TP has 240 total acres, 20 companies with 2,111 employees and nearly 900,000 SF of built space; total investment in the Park is over \$311 million