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Structuring The Public/Private Partnership

Bridging the gap between community desires, retailer reality and developer wants and needs is a tricky task.

James Kaplan

The role of the community or economic development director has evolved over recent years into that of more than just an advocate or promoter of available opportunities, marketing them along with certain economic incentives to try and make it all happen. Many municipalities and communities have wisely learned that if they wish to attract development and merchandise to the first center in a growth area or revitalize their aging downtown or other commercial districts, they need to start thinking more like shopping center owners. Despite impressive backgrounds, most don't possess real estate development knowledge. And like it or not, they're now in the shopping center business; yet they don't speak "shopping center." They need to become better educated about the economic and logistic realities of development and more sophisticated in their "leasing" or merchandising efforts, understanding and adopting strategies long used in the shopping center business.

Extensive planning is necessary to create an environment that distinguishes a community from its neighbor down the road. Lining up the perfect mix of stores, the proper compliment of national and local businesses, is never easy. As merchandise mix is what drives a shopping center and gives it an identity and value, so too must this be thought about by the community. Ideally, you want to serve the community with a mix of categories so you can be a one stop shop with an individual identity. So now the community has to also think more and more like the retailer, studying buying habits, demographics, neighboring developments, tailoring their leasing strategies to fit holes in the market.

Then comes the search for a master developer or group of developers to implement the vision. Should the RFP route be taken, reliance placed on a local expert or "favorite son," or efforts undertaken to look outside the regional area to find the perfect partner? And then, how best to work with the entity chosen? What are proper economic incentives? What exactly is the role of the municipality throughout the development process and then when the project becomes operational?

Communities need help. But one can't learn the shopping center business through a weekend correspondence course, so while undergoing the learning process, it becomes prudent to seek out consultants who can help bridge this knowledge gap, assist them in the planning aspects, help open doors to the proper development partners (which includes the retailer community) to help make their visions reality and help create a "win-win" situation for all involved.

Creating An Environment

The municipality should look at a development or redevelopment district in much the same manner as center developer conceives and ultimately merchandises a project. What are the attributes which exist? Who are the present customers and/or what type of customers are sought? What is the identity sought? Is the basis for these questions the wishes and hopes of a planner or the community board, or sound research on demographics, market supply and demand factors? Have the expansion plans of emerging retailers and service businesses been studied, consideration given to new dining and entertainment concepts and other, alternative forms of community assemblage?

Real estate will ultimately be what it wants to be, and the value of real estate is often determined by its use. It becomes the responsibility of the developer (and the development partnership, which should include the community) to maximize that value. How much local flavor, the only way to personalize a district or community, should be retained? With too many national users is the "hometown, community" atmosphere lost, even though value is increased as a result of the enhanced credit of a nationally known user? In short, a compelling mix plus the best operators creates the superior product, and again, communities need to work with the development community in partnership to achieve those goals.

Thinking About Long Term Value

Municipalities need to recognize and understand the concept of value creation. They need to understand the economics of development, that there are sound reasons why developers seek the subsidy packages and incentives they do. It's a lot more than just bricks, mortar, signage, landscaping and parking. They need to understand leasing, that rental income shouldn't be the only concern when thinking about tenants, and that it's okay for the developer and retailer to make money. But perhaps most important is the need to understand value not just from the economic perspective, but the intrinsic value derived from the creation or enhancement of a community identity. That through all of this, which inevitably takes more time than initially imagined, the community will realize a substantial return on their economic investment.

Facilitating The Partnership

As real estate marketing has evolved from the basic action of erecting a sign on a property and waiting for the phone to ring, so too has the process of developing and redeveloping our communities of today and tomorrow. There must now be an alignment of interests and a cooperative working relationship amongst all the parties in the equation. A growing corps of consultants exists who can help bridge the gap between community desires, retailer reality, and developer wants and needs. Experienced and versed in a variety of disciplines relative to the total development process, they can help the municipality better understand what they have, educate them in the economic realities behind the entitlement and incentive process, and teach them the language and realities of the shopping center business. They can provide an effective liaison between the developer and municipality, serving as a representative to effectively communicate and negotiate each party's needs in a manner devoid of the emotions and theatrics which are often part of the ongoing meeting and public hearing process. Most important, understanding the strength of relationships, which play such an important role in this business, they can assist in the process of securing the appropriate partners to make the visions a reality.

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