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Association of
Bay Area Governments



METROPOLITAN
TRANSPORTATION
COMMISSION

Transforming Aging Malls & Office Parks

Implementation Roadmap for Malls/Office Parks Redevelopment

October 2022

Agenda

| | |
|---|--------|
| Introduction & Objectives | 10-min |
| Redevelopment Process & Recommendations | 55-min |
| Discussion | 20-min |
| Next Steps | 5-min |

CHANGING LANDSCAPES IN RETAIL & OFFICE

Shopping malls have experienced a decline largely due to changes in consumer preference while the office sector copes with an uncertain future.

RETAIL

- Even before COVID, retail was changing rapidly, **with e-commerce/other factors causing a decline of dry retail.**
- A portion of successful malls remain, **touting experiential retail** and oftentimes cannibalizing retail in the region.
- An estimated **25% of America's roughly 1,000 malls will close** over the next three to five years.
- Mall **redevelopment can be challenging** given significant costs and ownership complexities.

OFFICE

- While **office vacancy rates have reached historic levels during the pandemic**, recovery has been localized and sporadic.
- **Suburban office markets are performing better** than urban submarkets and demonstrate stronger rent growth and vacancy reduction – in the Bay Area and nationally.
- A **“flight to quality”** is luring employers to smaller spaces in better Class A and trophy buildings.

REDEVELOPMENT OF COMMERCIAL SITES WITH MORE HOUSING IS A 'NO BRAINER'

The combination of housing demand and vacant malls provides tremendous opportunities.

Land Constraints for Housing

The cities with the largest need for housing also are most land constrained, leaving only infill opportunities for development.

Underperforming Commercial

Changes in consumer preference, e-commerce, and the pandemic have resulted in under-utilized commercial space, both in malls and office parks.



Increased Housing with Right Sized Retail

If feasible, developers will pursue redevelopment of mall and office properties, providing needed housing solutions.

LEARNING OBJECTIVES

This workshop is designed to prepare attendees with the foundational knowledge and skills to:



Understand development cycles and identify leverage points and tools to deliver public benefits incl. affordable housing and others.



Learn about key criteria to evaluate redevelopment potential and opportunities to capture economic value.



Identify sources and mechanisms of value creation to strengthen development potential, including public funding and financing sources.



Understand how to align public benefit goals and project economics.

HR&A ADVISORS

HR&A is an economic development and real estate consulting firm working at the intersection of the public and private sector. Our work transforms communities and revitalizes urban environments in the United States and abroad.



Kate Collignon
Partner



Amitabh Barthakur
Partner



Ada Peng
Director

Agenda

| | |
|--|--------|
| Introduction & Objectives | 10-min |
| Redevelopment Process & Recommendations | 55-min |
| <i>Planning & Pre-Development</i> | |
| <i>Entitlements & Negotiations</i> | |
| <i>Infrastructure & Project Buildout</i> | |
| Discussion | 20-min |
| Next Steps | 5-min |

DEVELOPMENT / REDEVELOPMENT PROCESS

Today we'll look at four stages of a typical real estate development process, focusing on tools and tactics that local jurisdictions can leverage to maximize community benefits.



KEY PUBLIC SECTOR ACTIONS

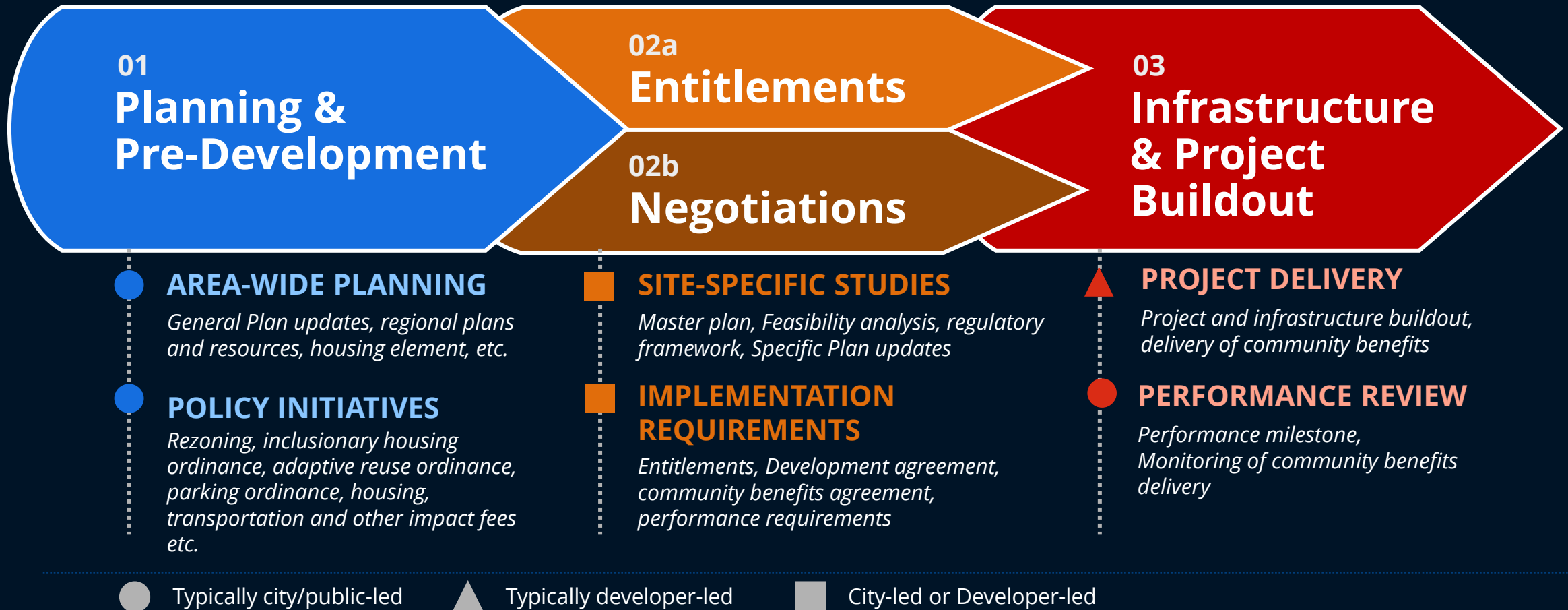
- Set the baseline of Citywide expectations
- Establish community vision and calibrate feasible policy tools
- Understand economic fundamentals
- Leverage community outreach
- Prepare project specific plans and implementation strategies
- Secure public benefits and establish performance monitoring
- Monitor performance

KEY DEVELOPER ACTIONS

- Site acquisition/consolidation
- Preliminary feasibility analysis
- Secure desired use and density
- Maximize market value
- Secure public/private financing
- Deliver community benefits

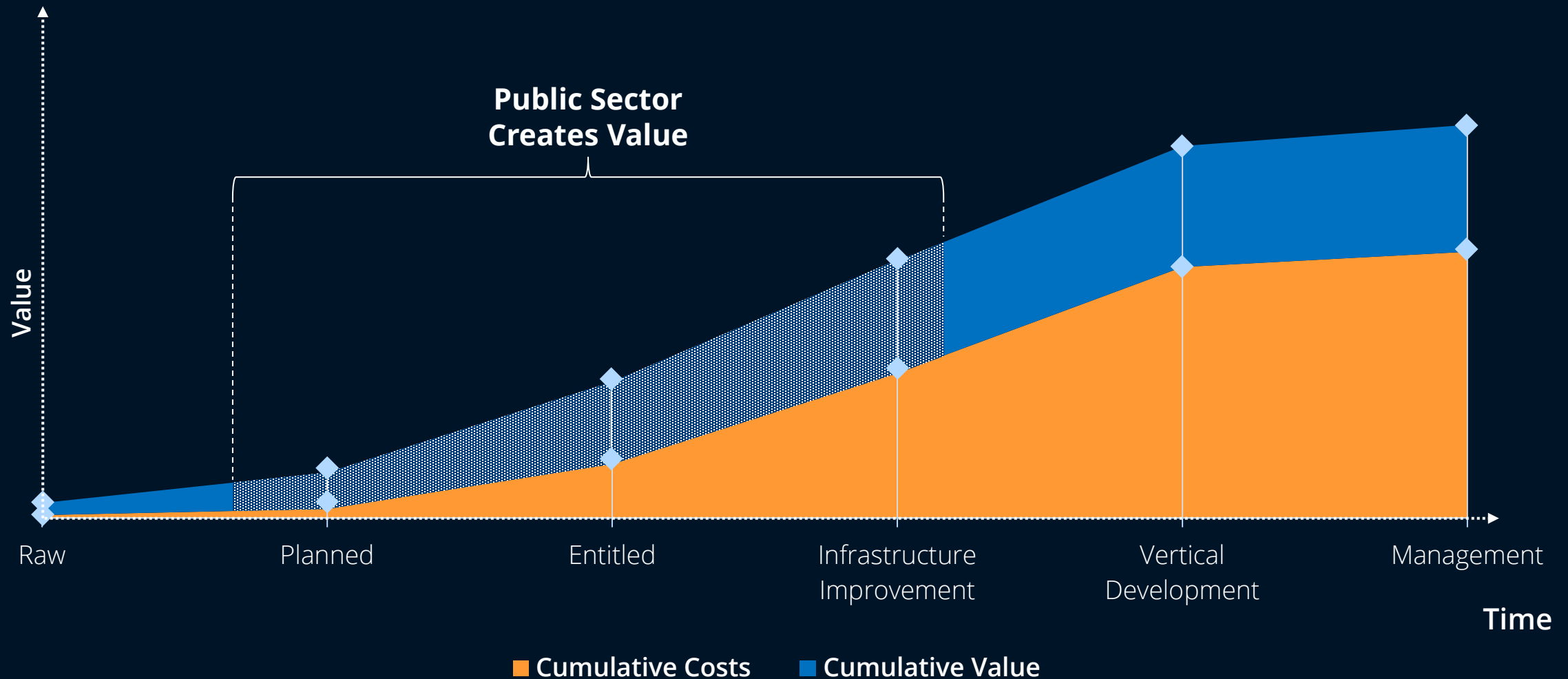
DEVELOPMENT LIFECYCLE AND LEVERAGE POINTS FOR PUBLIC BENEFITS

We will also highlight the specific approaches that are most effective and applicable for each stage.



DEVELOPMENT LIFECYCLE & LEVERAGE POINTS FOR PUBLIC BENEFITS 2

Public sector leverage to achieve public benefits decreases as the process advances, so tools and tactics must be timed appropriately to be effective.



What are your goals related to mall or office park redevelopment in your community?

Select your top choice only.

- a) Overall Housing Production (market rate and affordable)
- b) More Affordable Housing Production
- c) Community Revitalization
- d) Economic Development
- e) Fiscal Revenue
- f) Others, please specify in chat

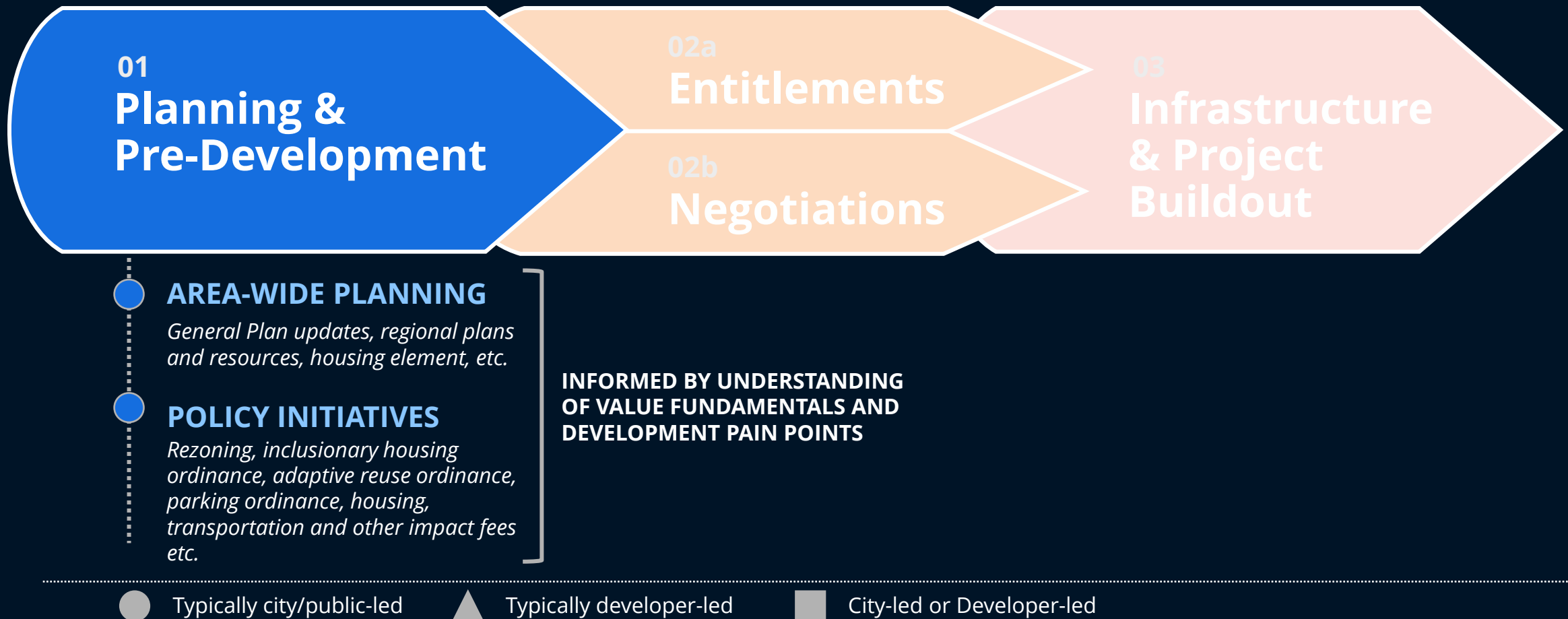
An aerial photograph of San Francisco, California, showing the Golden Gate Bridge spanning the Golden Gate Strait. The city's dense urban grid is visible in the foreground, with the bay and hills in the background. A dark blue semi-transparent banner is overlaid on the right side of the image.

01

Planning & Pre-Development

01 - DEVELOPMENT LIFECYCLE AND LEVERAGE POINTS FOR PUBLIC BENEFITS

Area-wide plans and policy initiatives can set **baseline expectations** regarding future development and community benefits well **before a developer is involved**.



PRIORITY CONSIDERATIONS



Understand project **value fundamentals** and **development pain points** to determine enablers and inhibitors of project feasibility.



Leverage *area-wide planning* and *policy interventions* to establish and promote a **baseline development expectations** and ensure that any **community benefit requirements** are grounded in market realities with built-in mechanisms to **accommodate potential changes** in market dynamics.



01 Planning & Pre-Development

02 Entitlements & Negotiations

03 Infrastructure & Project Buildout

Evaluating the following opportunity drivers can help planners understand what **community benefits** are **market-supportable**.

OPPORTUNITIES

→ **WORKSHOP#5 (HR&A)**
IMPLEMENTATION TOOLS

TYPES OF REDEVELOPMENT

What options are on the table (i.e., Adaptive re-use, redevelopment, or Hybrid)?

COMMUNITY ALIGNMENT

How do community aspirations/desires align with what the market can support?

MARKET OPPORTUNITY

What do prevailing real estate market indicators suggest with regard to specific uses?

ADJACENT LAND USES AND DEVELOPMENT CHARACTERISTICS

How will surrounding context impact desirability of the site and, ultimately, project value?

R.E. MARKET DEMAND AND SUPPLY FOR ALTERNATIVE USES

Could a change in allowable uses unlock previously unrealized value?

CATALYTIC POTENTIAL

What prerequisite public/private investments or policy interventions are needed to maximize future value (e.g., transit access, access to parks or other public amenities, proximity to employment opportunities, parking requirements, etc.) ?



THE GREAT MALL EXISTING CONDITIONS
Milpitas, CA
Sanjose.org



GREAT MALL PARKWAY VISION
Milpitas, CA
Sfymby.com

Identifying – and resolving – **critical pain points** early can help to attract greater **developer interest**.

CHALLENGES

SITE CHARACTERISTICS

Does the site's location, configuration, infrastructure needs, ownership structure, easements, etc. limit project feasibility?

BUILDING CHARACTERISTICS

Will a building's typology, floor plate size, existing uses, and other relevant characteristics lend themselves to redevelopment?

REGULATORY CONSTRAINTS

Is the highest and best use of the site allowable, given existing land uses / zoning, parking requirements, etc.?

SITE OWNERSHIP

Will ownership consolidation, transfer of ownership, or other interventions be needed in order to generate developer interest?

FINANCIAL FEASIBILITY & OTHER MARKET FACTORS

Is the desired development outcome financially feasible under expected future market conditions?



Calibrating community benefit policies **cannot be done in isolation**; planning and policy initiatives must consider the broader regulatory and real estate market context.



LOCAL POLICY TOOLS

- Inclusionary housing / local density bonus program
- Adaptive reuse ordinance
- General / Specific Plan update
- Affordable Housing Overlay Zones
- Middle/moderate-income policy
- Residential & commercial anti-displacement policies
- Parking ordinance

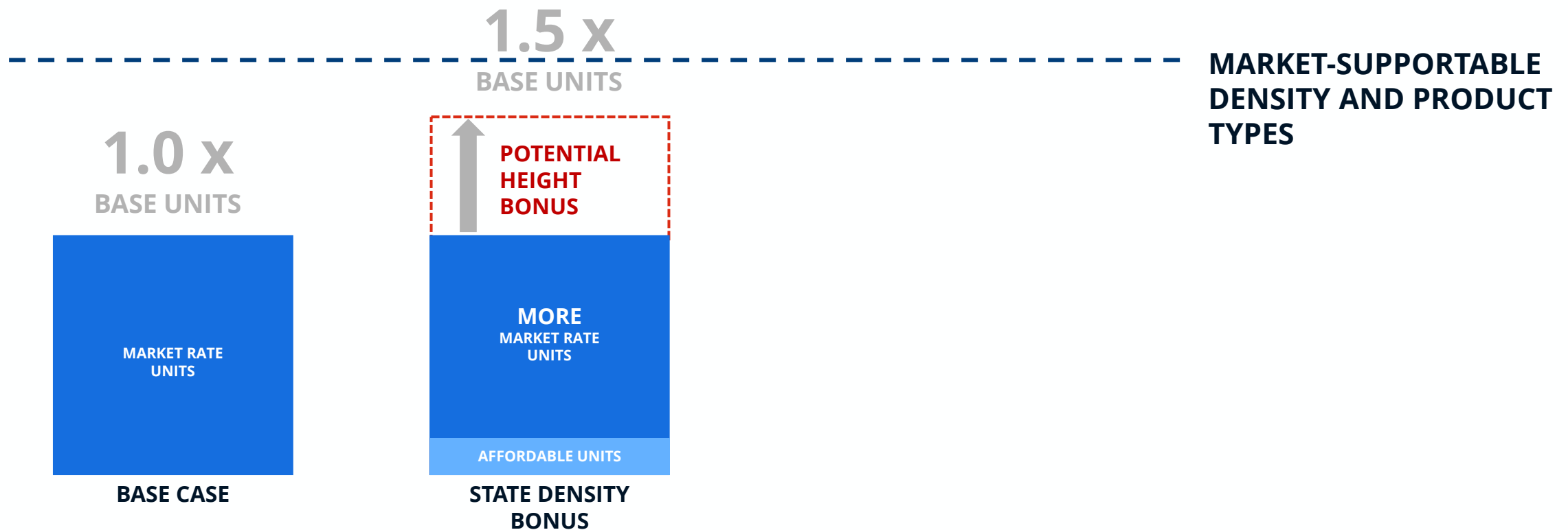
→ **APPENDIX:**
SAMPLE POLICY ORDINANCES

Has your community considered and/or adopted the following local policies?

Select all that apply.

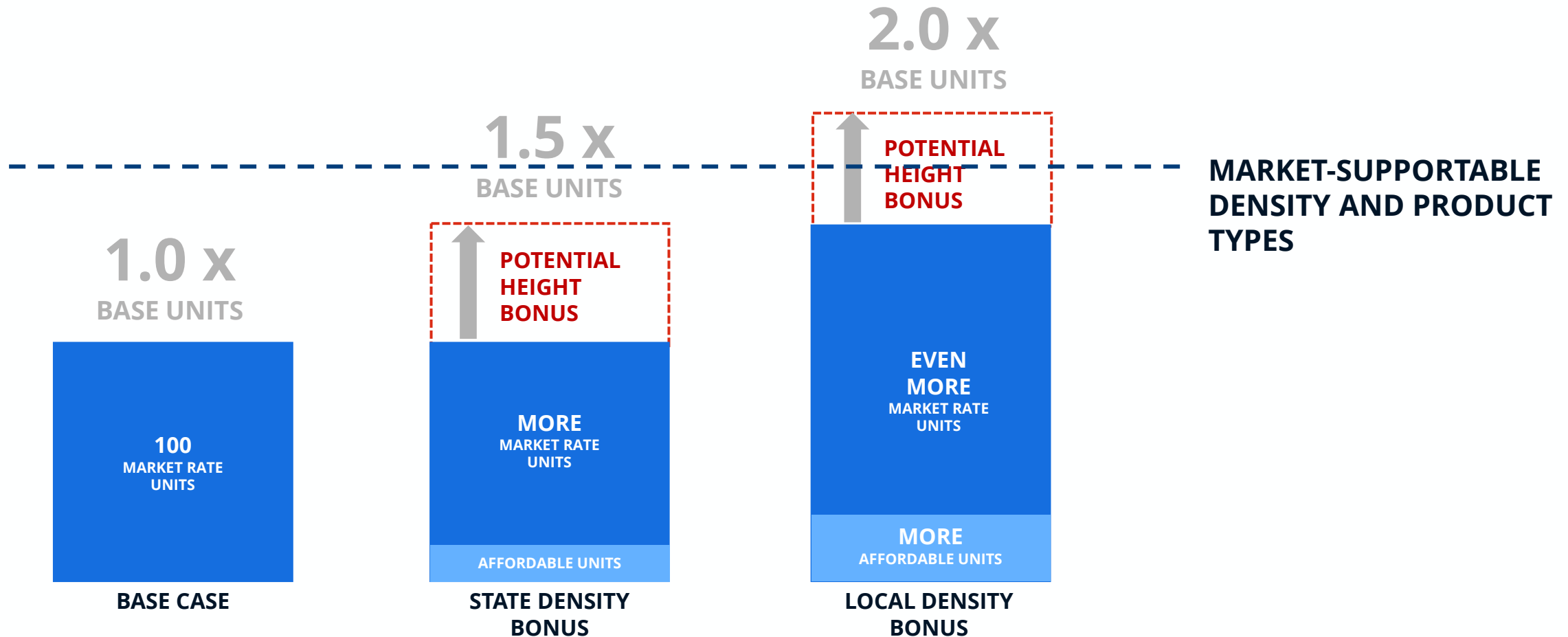
- a) Inclusionary housing / local density bonus program
- b) Adaptive reuse ordinance
- c) General / Specific Plan update
- d) Affordable Housing Overlay Zones
- e) Middle/moderate-income policy
- f) Residential & commercial anti-displacement policies
- g) Parking ordinance
- h) Others, please specify in chat

In some cases, statewide incentives may already **“give away” most of a project’s value**, limiting opportunity for additional value capture and, in turn, the project’s capacity for supporting additional community benefits.



Source: HR&A Advisors

If state-level incentives already allow a developer to reach the **maximum market-supportable density**, then local density bonus incentives are **unlikely to trigger the desired market response**.



Source: HR&A Advisors

CASE STUDY

Downtown West

San Jose, CA

YEAR BUILT

N/A

LAND AREA

80 acres

CURRENT OWNERSHIP

GOOGLE

ENTITLED PROGRAM

| | |
|-----------------------|--------------|
| Office | 7.3M sf |
| Residential | 4,000+ units |
| Retail/Cultural/Hotel | 500,000 sf |
| Open Space | 15 Ac |

KEY ISSUES

- High aspirational target for community benefits
- Anti-displacement strategies/community stabilization to mitigate impacts



Conceptual rendering, subject to change

"THE GATEWAY" PLAZA

Google Real Estate

Implementation Roadmap | HREA Advisors

CASE STUDY

Diridon Station

San Jose, CA

SOLUTIONS

City proactively established development guidelines and community benefits baseline (i.e., inclusionary zoning, commercial linkage fee)

Established shared goals early on (Memorandum of Understanding) and codify them (Area Plan, Development Agreement)

Community engagement established community benefit priorities

Incentives and contributions grounded in financial feasibility and fairness; Value created by City actions are shared

Clear definition and timelines for community benefit contributions; Some front-loaded and others related to project buildout



PROPOSED LAND USES

Google Real Estate



OPEN SPACE RENDERING

Google Real Estate



OPEN SPACE RENDERING

Google Real Estate

CASE STUDY

Promenade 2035

Los Angeles, CA

| | | |
|------------|--------------|-----------|
| YEAR BUILT | YEAR REZONED | LAND AREA |
| 1973 | 2013 | 34 acres |

| | |
|---------------------|-------------------|
| CURRENT OWNER | ORIGINAL RBA |
| Stan Kroenke | 615,400 SF |

ENTITLED PROGRAM

| | |
|-------------|------------|
| Retail | 244,000 SF |
| Office | 629,000 SF |
| Residential | 1,432 DU |
| Hotel | 572 keys |

KEY ISSUES

- Original Specific Plan (1993) was misaligned with market demand and failed to trigger desired market response
- Severe housing shortage demanded an alternate program



WARNER CENTER 2035 SPECIFIC PLAN
Los Angeles, CA

CASE STUDY

Promenade 2035

Los Angeles, CA

SOLUTIONS

Creating a new Specific Plan effectively corrected the market-misaligned land use regulations in previous Plan, immediately resulting in a high value transaction

Specific Plan reflected a broadly accepted vision, which streamlined project approval process and reduced developer's entitlement risk

City leveraged negotiations to set project-specific affordable requirements after existing incentives proved to be ineffective



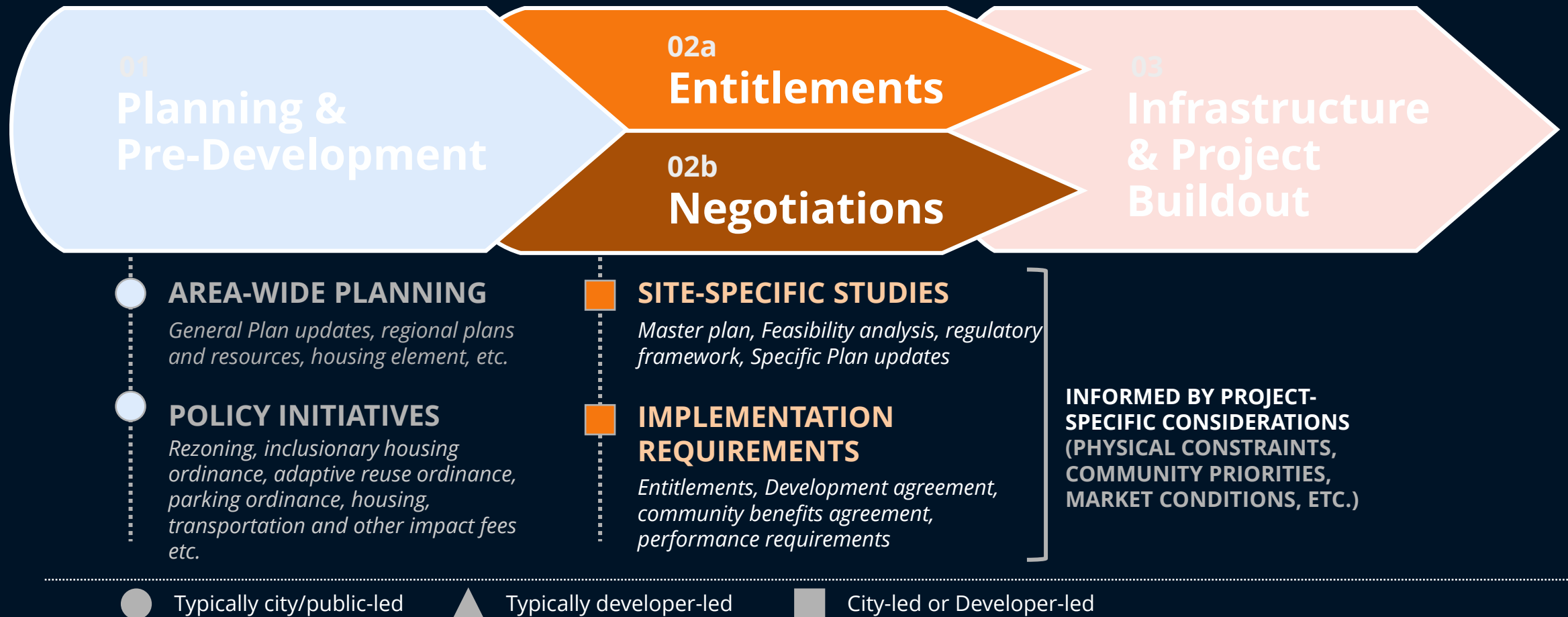
An aerial photograph of a city, likely Los Angeles, showing a mix of modern high-rise buildings and older structures. A semi-transparent dark blue rectangular overlay covers the center of the image. On the left side of this overlay is a vertical orange line, and to its right is the number '02' in a large, bold, orange font.

| 02

Entitlements & Negotiations

02 - DEVELOPMENT LIFECYCLE AND LEVERAGE POINTS FOR PUBLIC BENEFITS

Project-specific studies or agreements are best used for negotiating additional benefits **above and beyond baseline** expectations once a developer is engaged.



01 Planning & Pre-Development

02 Entitlements & Negotiations

03 Infrastructure & Project Buildout

PRIORITY CONSIDERATIONS 2



Productive public benefits negotiations will rely on a shared understanding of **financial feasibility levers** as well as a project's expected **sources and uses of funds**.



Public benefits should be requirements that go beyond **baseline project features**.



Build in **performance requirements** to ensure accountability and encourage timely delivery.



STONERIDGE MALL EXISTING CONDITIONS

Pleasanton, CA
Trip Advisor

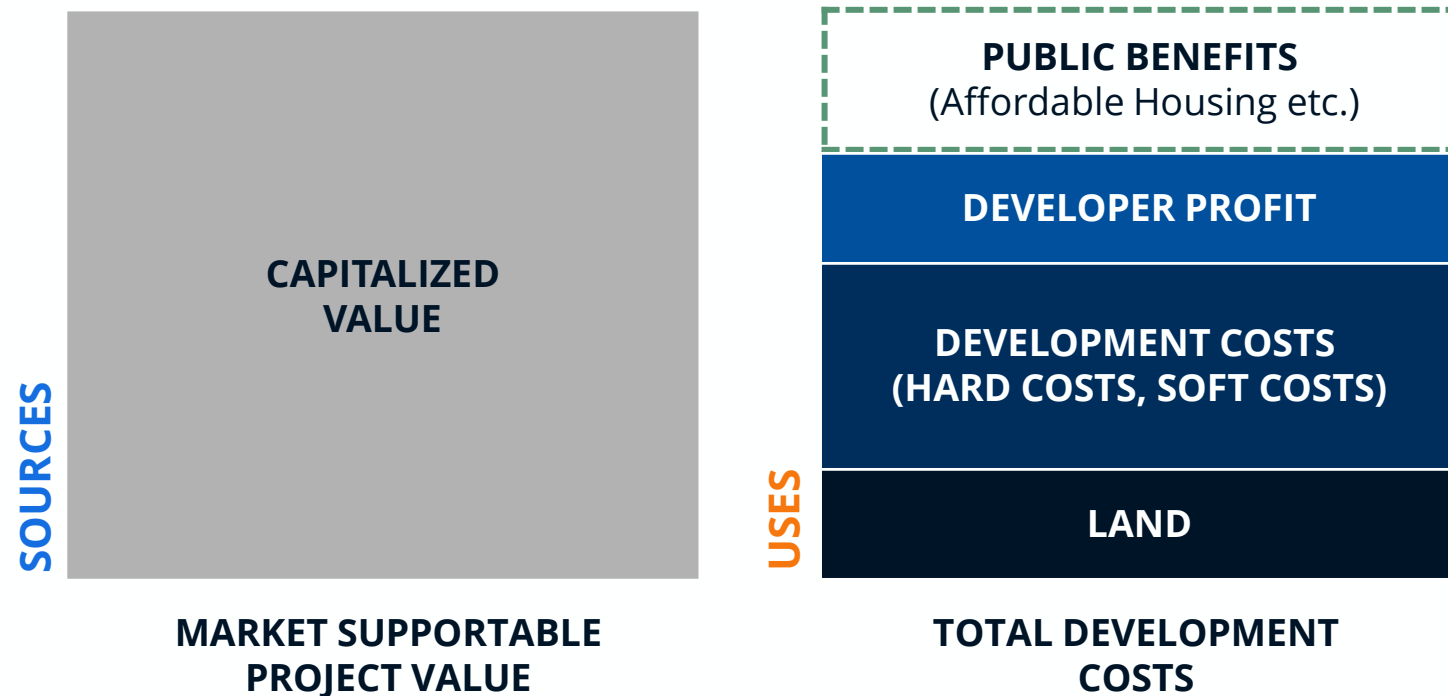
Implementation Roadmap | HR&A Advisors



STONERIDGE MALL EXISTING CONDITIONS

Pleasanton, CA
Beyondcasualb.com

Land use policies, zoning, and incentives must align with project economics for public benefits to be extracted.



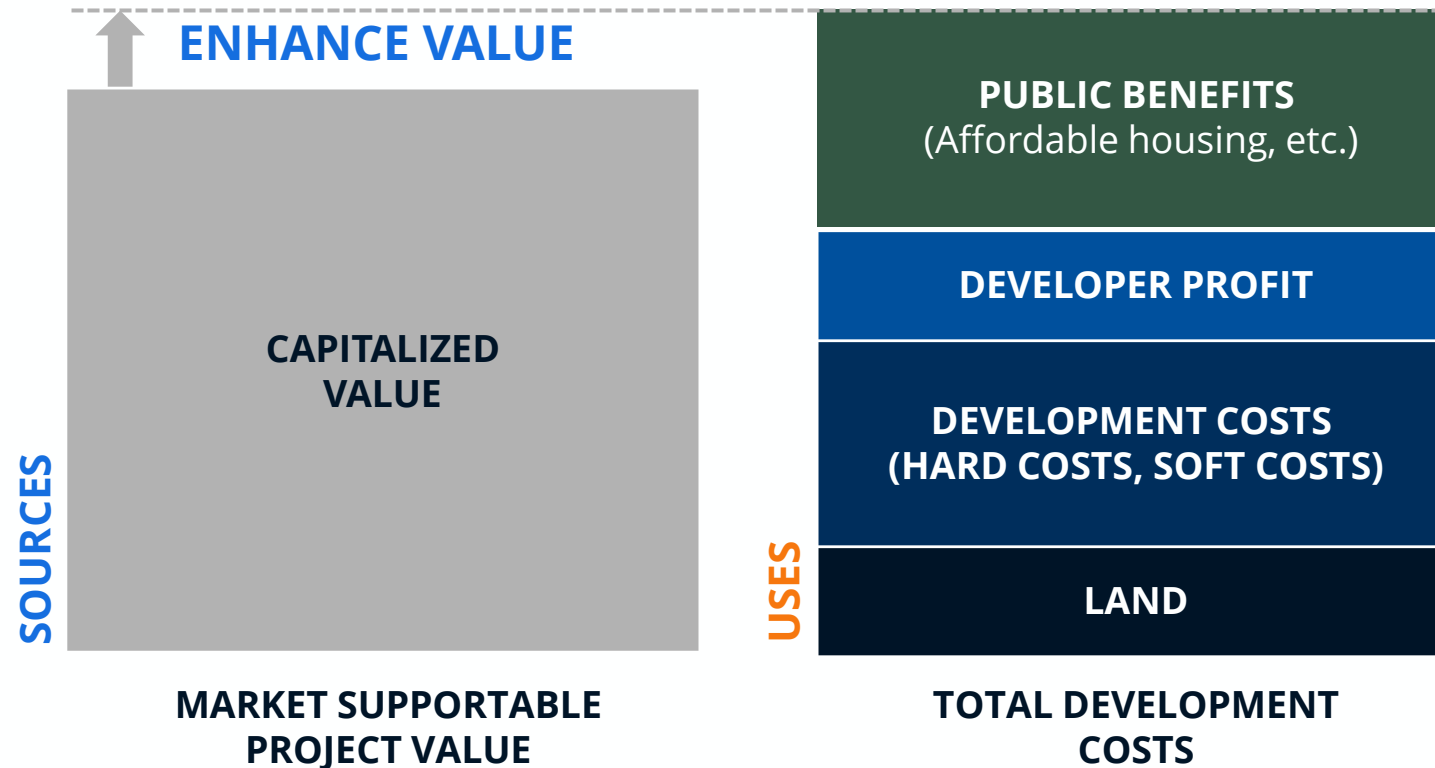
* Capitalized project value is driven by the stabilized project revenue, operating costs and market cap rate. Holding all else constant, a higher development capacity (i.e., FAR) often leads to a higher project value.

Public Benefits

- Affordable housing
- Open space (and other amenities)
- Employment opportunities
- Environmental sustainability
- Infrastructure (and other public improvements)
- Community programs

➔ **WORKSHOP#5 (HR&A)**
IMPLEMENTATION TOOLS

Site-specific discretionary approvals or public capital investments can grow the value of a project.



* Capitalized project value is driven by the stabilized project revenue, operating costs and market cap rate. Holding all else constant, a higher development capacity (i.e., FAR) often leads to a higher project value.

VALUE ENHANCEMENT TOOLS

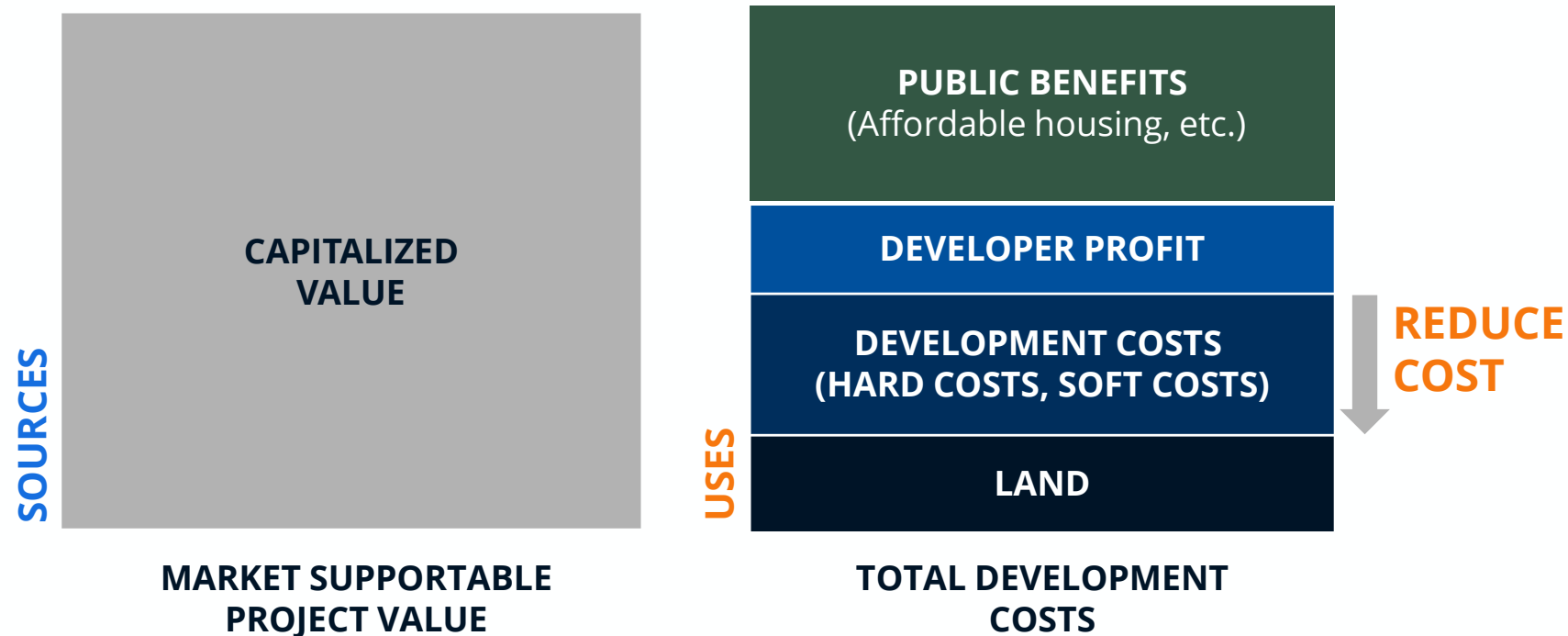
Land Use / Zoning

- Parking reductions
- Design variances
- Density bonuses
- Height increases

Public Investment

- Public realm investment
- Transit investment

Similarly, public actions that help to reduce a developer's capital outlay can also close a feasibility gap.



* Capitalized project value is driven by the stabilized project revenue, operating costs and market cap rate. Holding all else constant, a higher development capacity (i.e., FAR) often leads to a higher project value.

COST REDUCTION TOOLS

Funding / Financing Subsidy

- Tax subventions
- Assessment districts
- Public financing mechanisms / tools

Public Financing

- Infrastructure delivery
- Public realm improvements
- Parks and open space development / operation support

Administrative

- Streamlined approval process
- Entitlement certainty

Which of the following tools are you considering for your projects now?

Select all that apply.

- a) Value Capture (i.e., Enhanced Infrastructure Financing District (EIFD), Community Facility District (CFD))
- b) State and Federal Grants
- c) Tax subventions
- d) Debt Sources (Bonds)
- e) None of the Above
- f) Others, please specify in chat

COST REDUCTION TOOLS: There are a combination of tools and funding/financing mechanisms that only public sector entities can access.

VALUE CAPTURE

Value capture tools create a framework to reclaim future land value increases to fund capital or operating expenses for a development project. Value is captured through either **new assessment** on top of existing taxes, or by capturing a share of **tax increment** as assessed values grow from the development. **Community Facilities Districts (CFD)** and **Enhanced Infrastructure Financing Districts (EIFD)** are common examples of each, respectively.

TAX SUBVENTIONS

Tax Subventions are agreements made by municipalities to support development projects through payments of future tax revenue.

STATE AND FEDERAL GRANTS

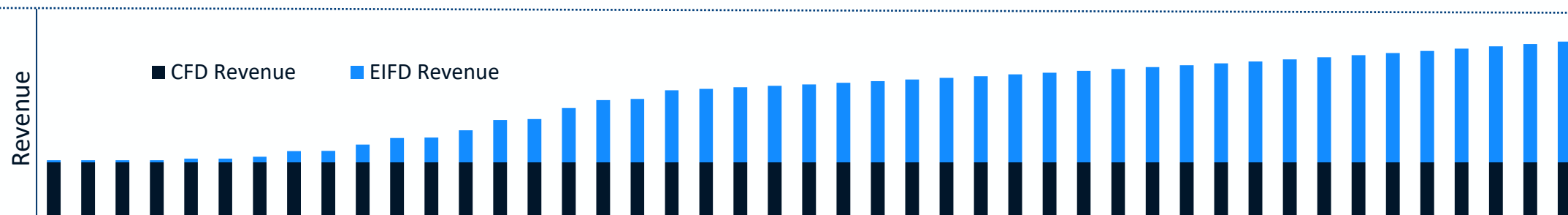
State and Federal Grants are financial awards to development projects with a public purpose, i.e., **Infill Infrastructure Grants, Surface Transportation Grants,** and the **Cap-and-Trade Program for Affordable Housing.**



DEBT SOURCES

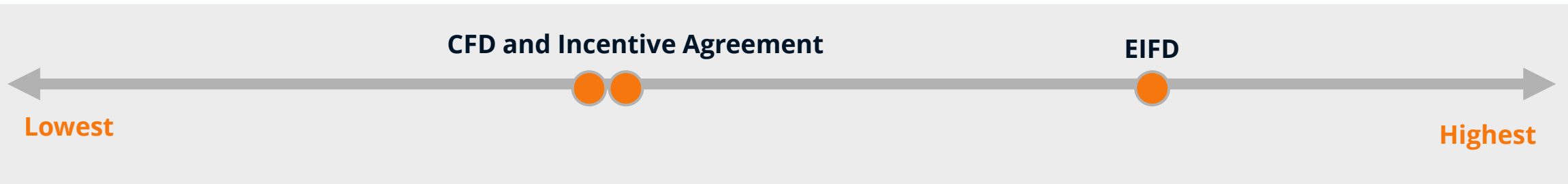
Debt financing sources provide developers with secure or low interest loans or bonds that must be repaid, to finance development projects, i.e., **Transportation Infrastructure Financing and Innovation Act Loans, Revenue Bonds and Lease Revenue Bonds, Cal HFA Loan and Bond Programs, Qualified Residential Rental Project Bonds, and FHA-Backed Loans.**

TOOLS CAN BE USED IN COMBINATION



COST REDUCTION TOOLS: Identifying the most appropriate tools to use will generally be informed by the scale of funding needed, capacity for implementation, and timing.

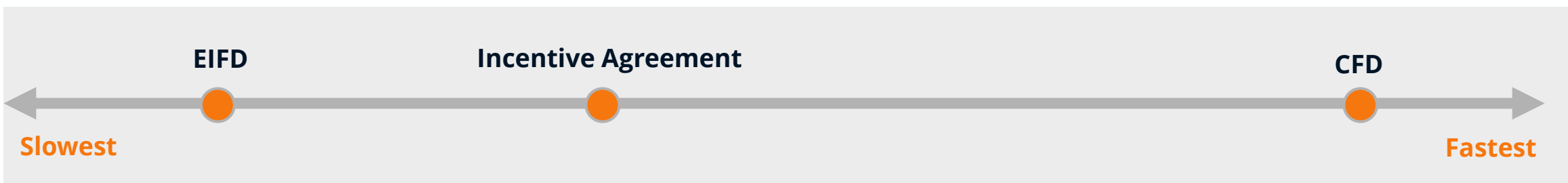
FUNDING POTENTIAL



IMPLEMENTATION COMPLEXITY & DIFFICULTY



TIMING



CASE STUDY

Montclair Place

Montclair, CA

YEAR BUILT

1968

LAND AREA

100 acres

CURRENT OWNERSHIP

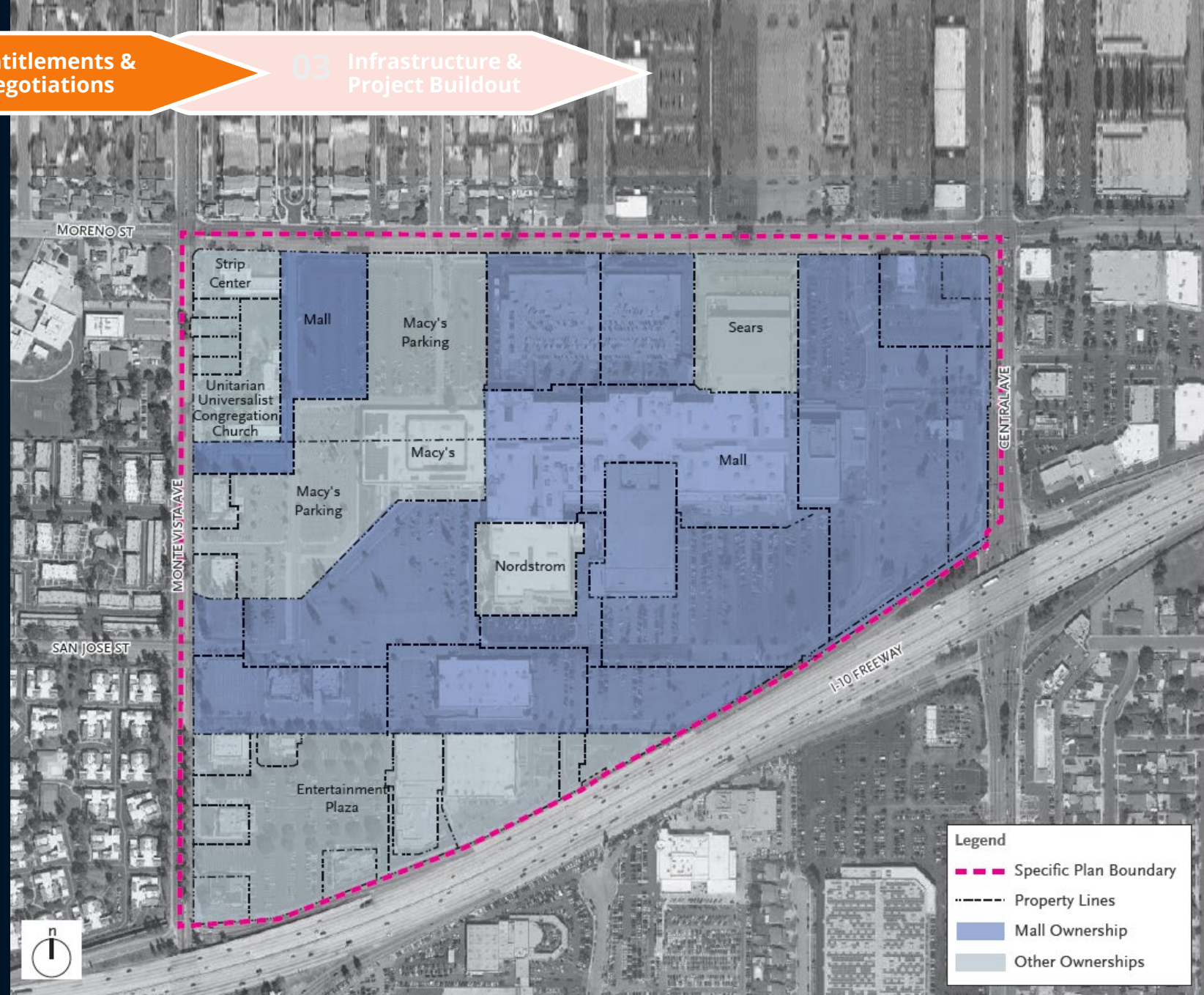
CIM Group (Mall Owner), Others

PROGRAM

Retail (Existing Mall) 1.2 M SF

KEY ISSUES

- Outdated zoning constraints
- Fragmented ownership
- Uncertainty on land availability
- Incompatible surrounding uses
- Market uncertainty



CASE STUDY

Montclair Place

Montclair, CA

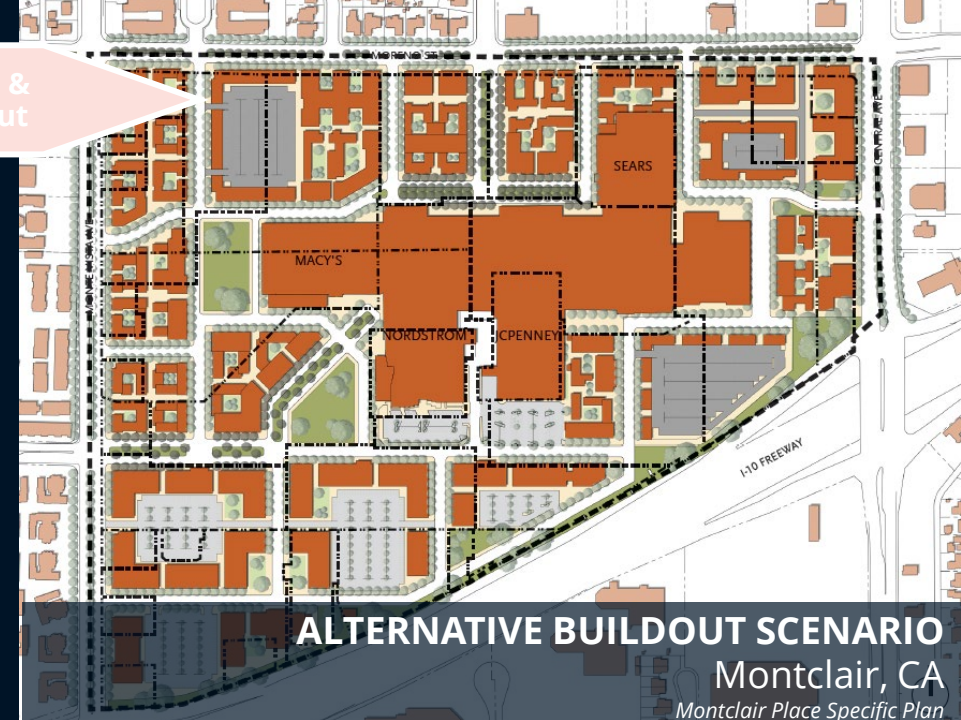
SOLUTIONS

Collaborative planning process (City led and reimbursed by developer) allowed the City to create a community-driven vision, while reducing entitlement uncertainty for developer

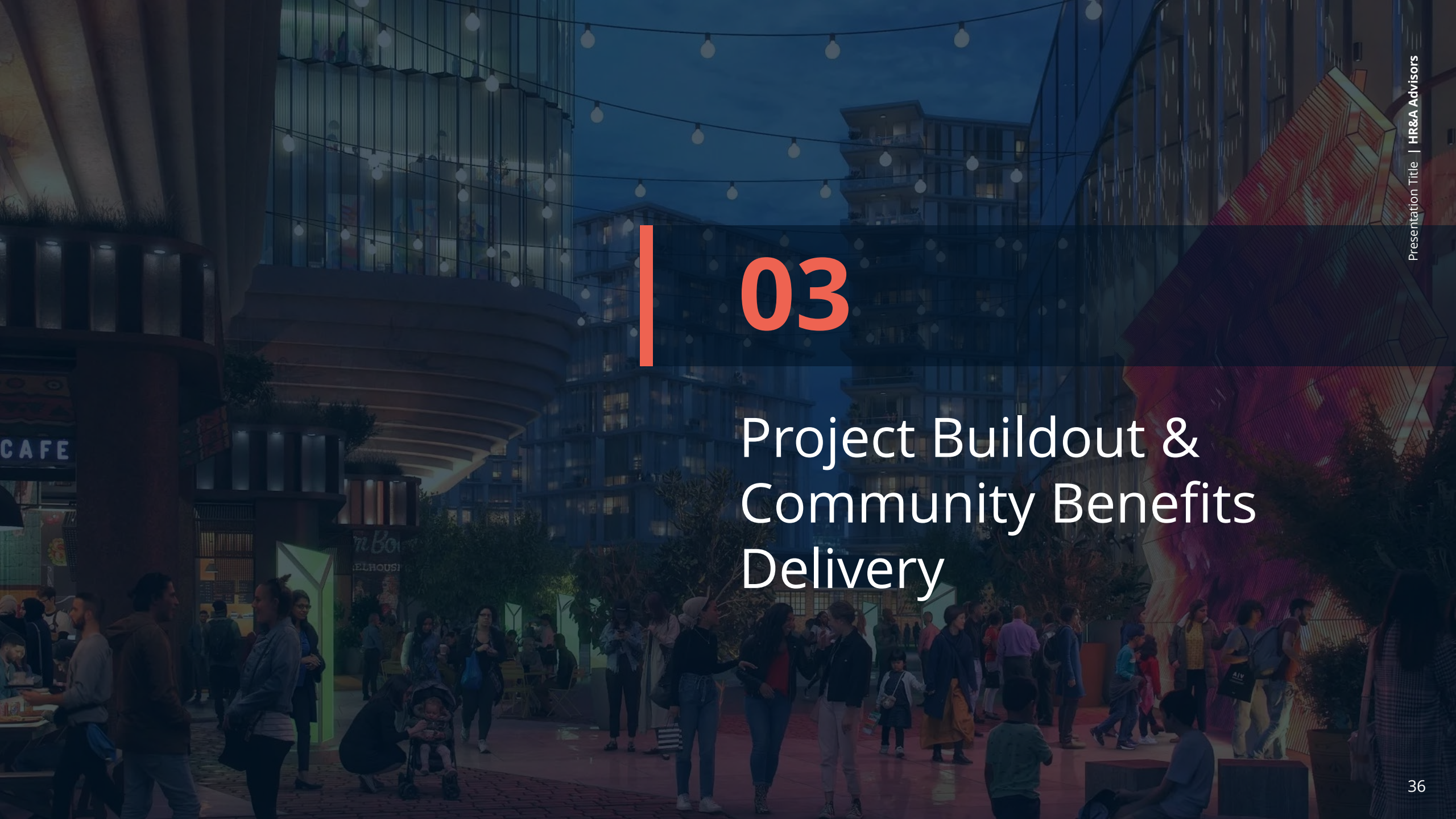
Specific Plan allows for long-term flexibility on land use and intensity of development to account for fragmented ownership and implementation timeline

Codified phasing options that called for early phase implementation on developer-owned sites

Plan tied key public amenities to each development phase, to ensure that community benefits are not back loaded



EXISTING CONDITIONS | Montclair, CA

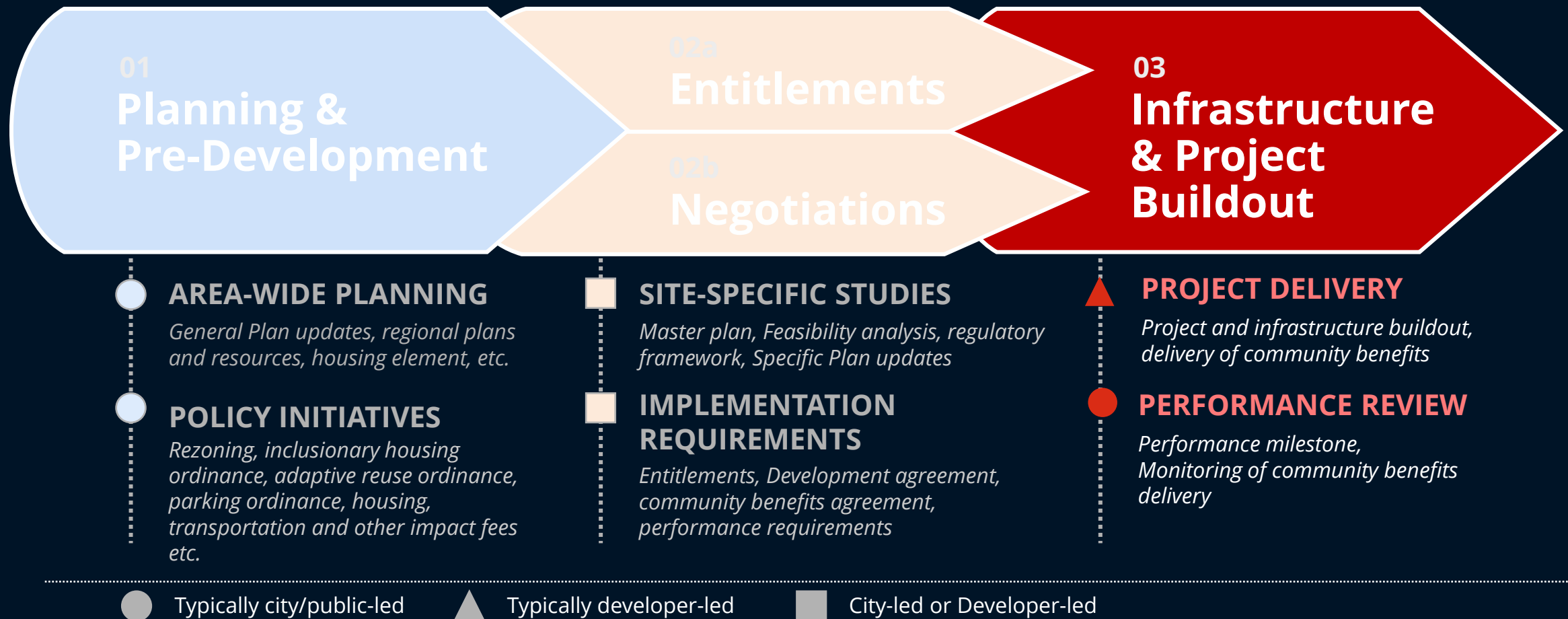


| 03

Project Buildout & Community Benefits Delivery

03 - DEVELOPMENT LIFECYCLE AND LEVERAGE POINTS FOR PUBLIC BENEFITS

It is critical to **codify public benefits requirements** to ensure developer accountability, timely project completion, and public benefits delivery.



01 Planning & Pre-Development

02 Entitlements & Negotiations

03 Infrastructure & Project Buildout

PRIORITY CONSIDERATIONS 3



Enforce **performance requirements** and allow **flexibility** in program mix are key to ensure accountability and encourage timely delivery.



Housing implementation strategies should be catered to local **housing priorities**.



THE RISE - VALLCO MALL
Cupertino, CA
Sfymby.com

Redevelopment projects are often larger-scale projects with a phased development approach, which requires strategies to ensure **accountability** and **flexibility** over longer periods.

PRIORITIES

TOOLS / STRATEGIES

→ **APPENDIX:**
SAMPLE PROJECT DOCUMENTS

Project Completion & Timely Delivery

- Built in **performance requirements** with **penalty clause** to encourage timely delivery in development agreements
- **Phasing milestones** with square foot ratios or housing/employment targets to unlock subsequent entitlements
- Allow **flexibility** in program mix and **transfer of uses** across the site to accommodate changing market conditions

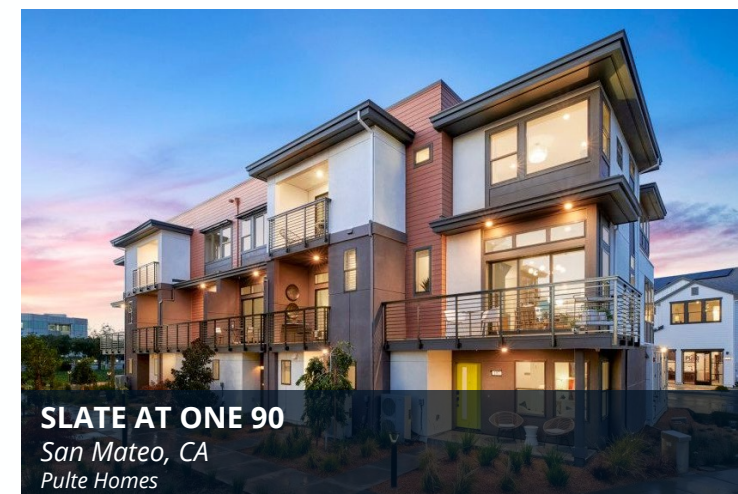
Timely Delivery of Adequate Public Benefits

- **Codify public benefits and timing requirement** in development agreement or planning documents
- Explore **funding/financing strategies** to support construction and ongoing operation of public benefits
- **Subsequent entitlements** tied to early delivery of enabling infrastructure



Communities might have **unique and shifting housing goals** which requires different strategies grounded in local context.

| PRIORITIES | TOOLS / STRATEGIES |
|--|---|
| Housing Production | <ul style="list-style-type: none"> • Provide incentives for on-site and faster housing production • Allow flexibility in housing program and development approach (i.e., 100% affordable housing vs. mixed-income) to balance feasibility and housing goals • Leverage state legislation to streamline approval process • Built in housing/commercial minimum requirements to ensure a healthy balance between commercial and housing |
| Affordable Housing Production and Preservation | <ul style="list-style-type: none"> • Adopt anti-displacement policies early on to prevent involuntary displacement and preserve naturally occurring affordable housing • Understand affordable housing financing and leverage public resources to fast-track delivery and provide gap funding |



01 Planning &
Pre-Development

02 Entitlements &
Negotiations

03 Infrastructure &
Project Buildout

CASE STUDY

The Campus at Horton

San Diego, CA

YEAR BUILT

Under Construction

LAND AREA

10 acres

CURRENT OWNERSHIP

Stockdale Capital Partners

PROGRAM

| | |
|-------------------|------------|
| Public Open Space | 1.2 AC |
| Office | 770,000 SF |
| Retail | 300,000 SF |

KEY ISSUES

- Regulatory restrictions
- Legacy tenant pushback / easements



AERIAL RENDERING OF PROPOSED REDEVELOPMENT | San Diego, CA

Stockdale Capital Partners

01 Planning &
Pre-Development

02 Entitlements &
Negotiations

03 Infrastructure &
Project Buildout

CASE STUDY

The Campus at Horton

San Diego, CA

SOLUTIONS

Used existing land use regulation that precluded developer from reducing retail uses as main source of leverage

Established comprehensive community benefits requirements based on a City-commissioned study to quantify amount to be supported

Promoted a program that was attractive of City leaders, who eventually used their influence to pressure legacy tenant to vacate



HORTON PLAZA PARK RENDERING | San Diego, CA
Stockdale Capital Partners

What are the implementation challenges you face with mall/office redevelopment?

Select all that apply.

- a) Physical Site Constraints
- b) Absentee Property Owners
- c) Parking Constraints
- d) Community Pushback
- e) Market Feasibility
- f) Fragmented Ownership
- g) Legacy Leases/ Easements
- h) High Infrastructure/Remediation Costs
- i) Smaller Scale Redevelopment
- j) Others, please specify in chat

WORK GROUP SCHEDULE



September 14, 2022
12-1:30pm

Defining the Purpose of Mall & Office Park Transformation



September 29, 2022
12-1:30pm

Incorporating Housing



October 14, 2022
1-2:30pm

Implementation Roadmap



November 2, 2022
12-1:30pm

Design Framework & Planning Process



November 9, 2022
2-3:30pm

Economic Modeling for Development Feasibility



November 30, 2022
12-1:30pm

Affordable Housing: Tradeoffs & Financing

APPENDIX - SAMPLE LOCAL ORDINANCES

The table below contains links to several local ordinances, organized according to the specific community benefit that each addresses.

| COMMUNITY BENEFIT | LOCAL ORDINANCES |
|--|---|
| Inclusionary Housing / Local Density Bonus Program | <p>City of Santa Monica Affordable Housing Production Program https://www.santamonica.gov/housing-ahpp-developers</p> <p>City of San Jose Inclusionary Housing Ordinance (2021) https://www.sanjoseca.gov/your-government/departments/housing/developers/inclusionary-ordinance-housing-impact-fee</p> |
| Adaptative Reuse Ordinance | <p>Downtown Los Angeles Adaptive Reuse Ordinance (2001) https://www.ladbs.org/docs/default-source/publications/ordinances/adaptive-reuse-ordinance---l-a-downtown-incentive-areas.pdf</p> |
| General / Specific Plan update | <p>City of Montclair Specific Plan (2020) https://www.cityofmontclair.org/documents/montclair-place-district-specific-plan/</p> |
| Affordable Housing Overlay Zones | <p>City of Los Angeles Transit Oriented Communities Incentive Program (2017) https://planning.lacity.org/plans-policies/transit-oriented-communities-incentive-program</p> |
| Middle/moderate-income policy | <p>City of Long Beach Middle-Income Housing Program (2022) https://longbeach.legistar.com/View.ashx?M=F&ID=10393881&GUID=615C3B17-D982-48E9-931D-2672C6B05494</p> |
| Residential & Commercial Anti-displacement policies | <p>City of San Jose Anti-Displacement Strategy (2020) https://www.sanjoseca.gov/home/showpublisheddocument/88627/637959126672100000</p> |

APPENDIX - SAMPLE PROJECT ENTITLEMENT DOCUMENTS

The table below contains links to several entitlement documents related to the case study projects highlighted in this presentation.

| DOCUMENT | LINK |
|--|---|
| Downtown West Mixed Use Plan Summary Page | https://www.sanjoseca.gov/your-government/departments-offices/planning-building-code-enforcement/planning-division/projects-of-high-interest/downtown-west |
| Downtown West Development Agreement | https://www.sanjoseca.gov/home/showpublisheddocument/77459/637680918932500000 |
| Downtown West MOU | https://sj-admin.s3-us-west-2.amazonaws.com/2018_1204_CityofSJ&GoogleLLC_MOU.pdf |
| Downtown West Design Standards and Guidelines | https://www.sanjoseca.gov/home/showpublisheddocument/77463/637680919040770000 |
| Diridon Station Area Specific Plan | https://www.sanjoseca.gov/home/showpublisheddocument/77461/637680918957970000 |
| Warner Center 2035 Specific Plan | http://www.aboutwoodlandhills.com/living/real-estate/warner-center-2035.pdf |
| Montclair Mall Specific Plan | https://www.cityofmontclair.org/documents/montclair-place-district-specific-plan/ |



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METROPOLITAN
TRANSPORTATION
COMMISSION

Thank you!

Transforming Aging Malls & Office Parks **Implementation Roadmap for Malls/Office Parks Redevelopment**

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