

Development 101

Before you begin a project, know your neighborhood and how the community is likely to react to your proposed ideas.

By Richard H. Close

Real estate development is back in vogue. New projects are being built and old properties are being rebuilt. There is demand for development and financing is available. Now the bad news.

Community groups are stronger than ever. With computers and broadcast fax systems, community groups can organize and incite the neighborhood — making it very difficult, if not impossible, for your development to proceed.

Many developers still live in the days of the 1980s. Campaign contributions and political contacts were all that were necessary to obtain city approval for a project. However, campaign-contribution limits and term limits make the system more difficult and complex. Thus, it is important that developers know the three rules for profitable development.

■ **Dealing with elected officials.** Elected officials need funds for campaigns. More important, however, they need votes. Nothing excites voters more than an "inappropriate" project in the middle of their neighborhood. To get approval for your project, you must show elected officials that the project is beneficial to and serve the needs of the community.

When you plan a project the first step is to visit the local elected official to determine whether your project is feasible. Very few projects can survive if an elected official in the community is opposed to it.

Before meeting with the elected official, meet with the planning staff member. Bypassing the planning deputy can be a big mistake. That person probably is more familiar than the elected official with the concerns of the community where the project is proposed to be built. Does that property have a history? How organized is the community? What does the community want or not want the development at that location?

The planning deputy will probably have an impact on the final decision. If you cannot convince the planning deputy of the benefit of your project, you probably will have a difficult time convincing the elected official.

■ **Work with the community.** After the meeting with the elected official, the next step is to find the active community groups in the area. Meet with them. Determine what projects they want and what projects they do not want. What do they perceive their needs are? A discount mall or a high end mall? Retail or residential? Restaurants or stores?

This process is part political and part marketing. If you can propose a project that the community wants, you are likely to get quick approval. If your project is considered "undesirable," you will waste a lot of time and money trying to get approval.

Communities often do not realize what they need. The proper marketing of your pro-

ject can create community support. In some communities, the architecture of the project is important. Be careful to make sure that the architectural style of your renderings are not out of touch with the community's desire.

Every community has different constituencies. Classically there are two groups — the residential and the business communities. These groups are further divided. Often the residential community is divided into homeowners and renters. The business community is often divided among commercial, industrial and office. Each group has different desires.

■ **Solve community problems.** The smart developer comes into a community as a "problem solver." The first question is: What does the community want and need, and can it be profitably developed?

Previously a developer would decide to build a shopping center. The developer would then try to get entitlements, even if the community was outraged about parking and traffic problems that the project would allegedly create. Instead of selling the need for a shopping center to the community, the developer would engage in an expensive and time-consuming battle.

Now smart developers determine what the community believes its problems to be, for example, lack of supermarkets, need for additional restaurants, etc. Then the developer has the community sell the project to the city and potential tenants.

In one classic example of the above rules, a well-connected Los Angeles developer fought for years to build a retail project. The developer had the political clout to obtain all the necessary variances and exemptions to build its project. The developer finally won and obtained all the permits.

However, by the time the battle was over, the developer had lost its financing. The tenants were no longer interested because there was new competition in the area. Other tenants had found different locations.

New financing became impossible because of the bad history of the site. Lenders were concerned that the community would continue its battle over the project. They were concerned that requests for conditional use permits (for example, alcoholic beverage license permits) would be opposed by the community. In the end the project went into bankruptcy and the developer lost the property.

A new developer purchased the property. The developer knew the three rules for profitable development and turned the biggest liability of

the site (community opposition) into its biggest asset.

By determining what the community wanted, the developer was able to obtain the active support and lobbying of the community for the project. The city ended up, at the request of the community, granting various exemptions and variances to allow the project to be built. City approvals were obtained in record time. The project was built and embraced by the community. The developer and the tenants obtained what they needed — profits. The community obtained what it wanted — an attractive center with tenants it wanted.

The complicated issue is how to apply the rules and also make money. Often the most profitable project is one that is never built. Too many developers have gone broke pursuing a project that could never be economically built because of restrictions and obstacles to the development.

Once a project is perceived as being a problem project, the problems multiply. The city will not give approval, financing becomes difficult and the tenants get scared. However, a development that adheres to the above rules will likely be built quickly and profitably because the community becomes the developer's marketing and lobbying team.

There have been cases in which such a developer has been asked by a city to pursue other major developments in the community. The developer becomes part of the city's team rather than an outsider viewed with suspicion.

Development of real estate projects is not a "bricks and mortar" business. It is a people business. Those who realize this will be profitable.

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