

Colophon

Title: Public and private actors in area development; USA versus the Netherlands

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Preface

You are about to read my master thesis for the Master of Science in Real Estate (MSc RE) at the Faculty of Spatial Sciences of the Rijksuniversiteit Groningen. The thesis is titled "Public and private actors in real estate development; USA versus the Netherlands".

In the end of 2008 I went to the United States in order to conduct the largest part of my research. The NEURUS (Network for European and United states Regional and Urban Studies) program made it possible to visit the University of California in Irvine. Irvine was the perfect location for doing my research and a great opportunity to explore California. My supervisor in Irvine; Professor Scott Bollens, was always available for advise and comments. There were also many other people who wanted to help me and I got the chance to interview experts in the field of area development. Real estate developers, governmental experts and professors were all great sources of information and I had some pleasant conversations with them. I want to thank them for that.

Back home I had to finish my thesis. Since I am writing my preface now, it took a while to finish my thesis. The real estate market in the Netherlands has changed during the period I was working on my thesis, but it is still interesting to see in which way the area developments in the Netherlands could be refined in order to shorten and improve the development process. Although my research was about shortening processes; I didn't really give the good example. But due to the flexibility of my supervisor Paul van Steen I was still able to finish my thesis. Not only do I want to thank him for his flexibility but also for his efforts arranging my visit to California and his ideas and comments on my thesis. Also important in this long process were my friends, family and colleagues who kept motivating and supporting me.

Finally this chapter of studying can be closed while my attention already shifted to my professional career. I hope you enjoy reading my thesis.

Henk Nienhuis

july 2011

Abstract

Development of real estate evolves through a certain amount of steps in order to reach the eventual goal of realizing the buildings, add value to an area and hopefully make a profit. Goal of this report is to achieve an understanding of the realization of area development projects (in Dutch: "gebiedsontwikkeling") in the United States, in order to identify concepts, methods and approaches that could help improve and speed up similar area development projects in the Netherlands. In this thesis area development is referred to as an integral area targeted development of spatial assignments, in which real estate development has an important role.

The sequence of steps to reach the eventual goal of the development project are interpreted differently by various experts. Eventually the following things have to be done in order to realize the buildings: project start-up, testing feasibility, design, reach binding contracts and the realization of the building(s).

Although development in the USA was a private driven market, the development regulations from the government have become more complicated and developers face many decisions about making their way through the permitting process. Land use policy in the United States displays a huge internal variation. Unlike many other countries, the USA does not have a national land use planning law. Each municipality has its own regulatory process, permitting requirements and development standards. The trend in regulations seems to be toward the use of criteria and standards that measure the performance of an area development. The governmental entity can also participate in area development project through a Public Private Partnership (PPP). The USA has a long history of area developments with a PPP construction and they acknowledge the importance of the start of a project. The government has to prepare very well and get to know all the involved parties. The partnership has to be well documented and once the partnership is established there has to be ongoing nurturing in order to succeed. In many area developments a redevelopment agency is established which gives the local government the opportunity to use tax increment financing.

This thesis started with desk-research. From this theoretical information hypotheses were made. These hypotheses were tested on two cases and an expert panel of area development experts. The first case study is Victoria Gardens which is a mixed-use mostly retail town centre in Rancho Cucamonga. The second case study is a residential development called The Boulevard and is located in Anaheim. Important aspects of the area development which are commonly used in theory are also used in these cases. For instance the local home rule principle; in both cases the local City Council could decide how to act upon the PPP and entitlement process. Both cases used a redevelopment agency and generated and used the tax increments for the initial investments. Finally in both cases there were used many forms of incentivizing the developer in order to make the development possible.

From these USA experiences a couple of things could be used in the Netherlands. Local Home Rule is a system that is deeply integrated in the USA system. Each municipality has its own regulatory process, permitting requirements and development standards. Although there is a decentralized government in the Netherlands as well, there is still much influence from regional, state and European laws. The freedom local governments have in the USA should be something to think about for the Dutch habit of area development. According to many experts in the USA the establishment of

a redevelopment area and with that a redevelopment agency is a very powerful tool in order to realize projects that otherwise wouldn't happen or would take a lot more time. The special law that becomes in effect gives the City and the developers a lot of advantages. One of those advantages is tax increment financing, therefore a project area has to be identified and the property tax on the property will be determined. This rate will be frozen at this level for a certain period of time. After that, improvements are made and these improvements will cause neighboring property values to increase. The rise in property taxes creates more taxable revenue to be invested in the specific project area. Another way of making area development easier is giving the developer incentives, such as density bonuses, waiving permit fees, fast tracking development proposals and financial incentives.

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1. Introduction

Area development has different circumstances everywhere in the world. This research report will be about the differences between area development in the USA and the Netherlands. The report is called; "Public and private actors in area development; USA versus the Netherlands". This title refers to the two most important parts of my research; area development and the cooperation between the public and private parties. In this chapter will be discussed the why, what and how of this research. The first part of this chapter is the problem exploration; it will be about why this research project was started in the first place. The other parts of this chapter will be about how the research was conducted, with which research questions and what is done to get the answers.

1.1 Problem exploration

In the Netherlands there are some recent developments that make urban (re)development a lot more difficult. The government prefers that new real estate projects should take place in the urban, built-up area. But this isn't working very well because of the lack of space in urban areas and the many actors involved, especially for large-scale mixed-use projects. The urban space shortage can be seen as a positive outcome of the so-called "Compact city" policy that has been used since the late 1980s. Moreover, due to complex planning procedures and a fear for suburbanisation in general, it is difficult to realise real estate projects in the open space in rural areas surrounding urban areas. These developments can take more than ten years. The developments within city boundaries take even longer (Van Steen 2008).

The above described problem is even more problematic in light of the constant increasing demand for housing. There are some demographic developments such as the increase of the number of households and increase of senior citizens. Besides this there is a more diversified taste of different people. For instance many people no longer look for houses based on proximity to work, due to changes in technology and the increased number of women in the workforce is providing more households with dual incomes. Together these factors allow for more freedom of residential choice. The aging population also has different needs that may not be met in their current environment (Brounen and Neuteboom 2007). So it is really hard to develop the right homes for the right people. But since the realization of new development is very difficult and takes a long time the supply doesn't match the demand for housing. This works out in the housing market. The prices have been rising for a couple of years already. But since 2008 the transactions of houses dropped because of the crisis. Afterwards, in the end of 2009 there is market stabilization (Rabobank 2010).

In order to do something about this the Dutch government tries to speed up the development of housing and new areas. The main goals of the Dutch housing policy are (Ministeries of VROM, LNV, V&W and EZ 2006):

- build about 1 million houses till 2020 to reduce the shortage of houses to 1,5 %;
- build enough houses for the aging people of the society which is about 250.000 till 2010;
- the supply should be flexible to be able to change houses for different circumstances.

In the Dutch national government's white paper on physical planning, "Nota Ruimte" (2006), the national government takes the point that combining plans of private investors with plans of governments is an important way to improve the price-quality ratio of development projects. Since

then there were much more so called Public Private Partnerships (PPP), but these PPP's already have a long history in the Netherlands. It all started with the foundation of the Voc in 1602. This was a first "version" of a PPP, but the PPP's in this case are much more recent. Till the 1980s there wasn't much of cooperation. Since the coalition agreement of the government led by Lubbers, which arranged that there should be more cooperation between public and private parties it changed a bit. Since the 4th Memorandum on Spatial Planning there was much more interest in the cooperation between parties. In this period more cooperation forms were established. But there still weren't any real public private joint ventures. The appearance of the 4th Memorandum on Spatial Planning extra (Vinex) in 1992 initiated a new impulse for the PPP's. The government assigned areas in which there should be new developments. So the private parties bought these places in order to be part of that development (Deloitte Real Estate advisory 2008).

After this relatively short history of PPP's there was the appearance of the "Nota Ruimte" (the fifth memorandum on Spatial Planning), published in 2006, which wanted more PPP's (Ministeries of VROM, LNV, V&W and EZ 2006). Together with the decentralization of the Government, which is the change from national governed spatial planning to a more regional (municipalities) governed spatial planning there is a good situation for PPP's. Many provinces and municipalities already utilize PPP's as a way to achieve new, large projects. Examples of good practices identified by the national government include the Amsterdam South Corridor, the Second Meusarea (Port of Rotterdam) and the 'Meerstad' project in Groningen. PPP's are also seen as an important way to improve and speed up large-scale development projects. It is clear that the Dutch national and local governments see an important role for private developers in order to achieve the physical planning goals (Van Steen 2008).

Another aspect in the Dutch planning history is the so called area development, in Dutch "gebiedsontwikkeling". The Dutch ministry of VROM (Housing, Spatial Planning and the Environment) uses the following description of the area development which is also called development planning (Mackey 2005):

- an integral area targeted development of spatial assignments. The concern is more about the quality of the whole project and less about the separate goals;
- cooperation between the government, private parties, social entities with the development and implementation of spatial plans;
- finish the whole project and after the finishing of the project there should be a financial equalisation of the different profitable and unprofitable parts of the project.

A large part of the area development projects consists of the development of real estate. In the Netherlands there are different sorts of area development. For instance the city centre plans, restructuring of a "bad" area, inner-city restructuring and developing new real estate in open areas (Greenfields) (VROM 2007). All these area developments consist of different sorts of real estate like industrial, commercial and residential developments.

Due to the qualitative and quantitative shortage of houses and a not properly working housing market along with other things there are some changes in the Dutch habit of developing new real estate. This all leads to much more PPP's in area development. The USA has a long history of area development combined with PPP's. American cities have been involved in area development partnerships since the Urban Renewal Program in the 1950's (Janssen-Jansen and Georgius 2005).

Since there is a longer history of area development in the USA I want to explore how they work in the USA to learn from those experiences for the Dutch area developments.

1.2 Research goal

My problem exploration leads to my research goal:

Achieve an understanding of the realization of area development projects in the United States, in order to identify concepts, methods and approaches that could help improve and speed up similar area development projects in the Netherlands.

1.3 Research questions

The following research questions have to be answered:

1. How is the private driven development process, compared to the Netherlands, organized in the United States?
2. A. What influences does the United States government have on the area development projects?
B. How is the United States government involved in area development projects?
3. What were the most significant features of the area development projects for two United States cases?
4. Which features of the area development projects in the United States could be used in the Netherlands to improve and speed up similar area development projects?

1.4 Methods and techniques

For this research report there were used a couple of methods to get the answers to my research questions. To make clear how this research is structured it will be explained by figure 1.1.

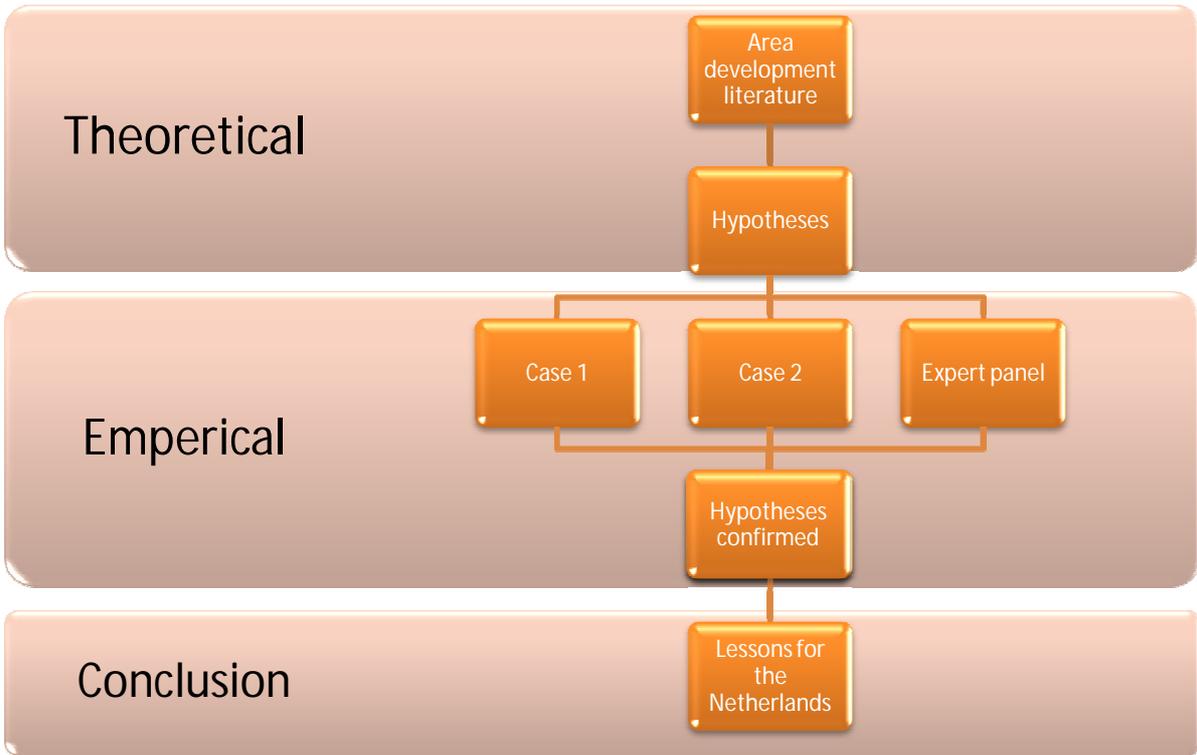


Figure 1.1 Research methods

The first part of my research in the USA is desk-research; this is the way to find out how the general development process works in the USA and what influence and involvement the government has. After that the theory was checked with two case studies and an expert panel. Does the theory say the same as the cases and expert panel do? In order to find out, hypotheses were made from the theoretical chapters. These hypotheses were tested with the two case studies and the expert panel. The two case studies were both in the Southern Californian area and were the winner and a finalist of a prize awarded by the Urban Land Institute (ULI) for best PPP. The first case study is Victoria Gardens in Rancho Cucamonga which is a mixed-use mostly retail town centre in Rancho Cucamonga. The second case study is a residential development called The Boulevard and is located in Anaheim. The expert panel consists of experts in the field of area development and these are professors, real estate development experts and government officials. If the cases and the expert panel confirm the hypotheses there is a clear image of the concepts, methods and approaches that could help improve and speed up similar area development projects in the Netherlands.

1.5 Outline

The first following chapter is the literature based description of the development process. It shows the sequence of steps used for the development of different projects. It will mostly be about the sequence used in the USA but it will also be compared with the most commonly used sequence of steps used in the Netherlands. The following chapter is about area development in the USA. The first part is about the different circumstances in the USA and the different participants, followed by the government influences and involvement in area development projects. This basic idea about development in the USA will be followed by the description of two USA based case studies in chapter four. This general description of the cases will be followed by the comparison of the theory with the cases and expert panel in chapter five. Afterwards there will be a chapter with concepts, methods and approaches that could be used in the Netherlands to improve and speed up similar area development projects. The last chapter consists of the conclusions and recommendations for further research.

2. Development process

The core of the development process is the sequence of steps to reach the eventual goal of realizing the building(s) itself. It is an iterative process, because there are many things happening at the same time, but in this process there are still ways to discover phases. These phases can be recognized because there are decision moments; these moments mark the transition to the other phase. There are different opinions about the number and names of the different phases. Figure 2.1 shows four different ideas about the phases in the development process (Nozeman 2008).

Miles et al.	Ratcliff/Stubbs	Cadman/Austin-Crowe	Neprom/Gehner/Elias
Inception of an idea	Concept and initial consideration	Evaluation	Initiative
Refinement of an idea	Location judgement and feasibility	Preparation	Development
Feasibility	Detailed design and evaluation	Implementation	Realization
Contract negotiation	Contract and building	Transfer	Exploitation
Formal commitment	Marketing, management and transfer		
Construction			
Completion and opening			
Property management			

Figure 2.1 Phases in development process (Nozeman, 2008) own revision

The figure shows the ideas of Miles et al., Ratcliff/Stubbs, Cadman/Austin-Crowe and from the NEPROM¹. Miles et al. have written a book which is commonly used in the USA. The phases used by the NEPROM are commonly used in the Netherlands. So this chapter will describe the process according to Miles et al. in their book "Real estate development, principals and process". But it will also be compared with the phases according to the NEPROM.

¹ An association for real estate developers in the Netherlands

2.1 Two models of the development process

Developers have to follow some sort of sequence of steps from the moment they first conceive a project to the time they complete the whole building. After that they can switch to asset management or sell the property. Between different participants of the development there can be some slight differences and the beginning of a project can be different since it can be started by the developer itself, a public entity or a land owner (Schwanke 2003), but the essence of the steps doesn't vary significantly. Development requires the following elements at the minimum: coming up with the idea, refining the idea, testing its feasibility, negotiating necessary contracts making formal commitments, constructing the project, completing and opening it and finally managing the built up project. Just as it is in the Netherlands; the development process in the USA isn't a straightforward or linear model. Figure 2.2 gives an idea of the development process but it is very hard to catch this process in one figure, since it is always changing and overlapping.

<p>1. Inception of an idea</p> <p>Not feasible → Stop the project</p> <p>Feasible ↓ Next phase ↓</p>	<p>Developer looks for needs to fill, sees possibilities, has a dozen ideas, does quick feasibility tests in his head</p>
<p>2. Refinement of the idea</p> <p>Not feasible → Stop the project</p> <p>Feasible ↓ Next phase ↓</p>	<p>Developer finds a specific site for the idea; looks at physical feasibility; talks with prospective tenants, owners lenders, partners, professionals; settles on a tentative design.</p>
<p>3. Feasibility</p> <p>Not feasible → Stop the project</p> <p>Feasible ↓ Next phase ↓</p>	<p>Conduct a more formal market study. Processes plans through government agencies. Demonstrates legal, physical and financial feasibility for all participants</p>
<p>4. Contract negotiation</p> <p>Cannot reach binding contract → Stop project</p> <p>Reach binding contracts</p> <p>↓ Next phase ↓</p>	<p>Developer decides on final design based on what market study says, users want and will pay for. Contracts are negotiated. Developer gets loan commitment in writing, decides on general contractor, determines general rent or sales requirements and obtains permits from local government.</p>
<p>5. Formal commitment</p>	<p>Contracts, often contingent on each other signed.</p>
<p>6. Construction</p>	<p>Developer switches to formal accounting system, seeking to keep all costs within budget. Developer approves changes suggested by marketing professionals and development team, resolves construction disputes, signs checks, keeps work on schedule and brings in operating staff needed.</p>

7. Completion and formal opening	Developer brings in full-time operating staff, increases advertising. City approves occupancy, utilities are connected, tenants move in.
8. Property, asset and portfolio management	Owner (either developer or new owner) oversees property management (including re-leasing),

Figure 2.2 Eight phases of the development process (Miles, Berens, Eppli, & Weiss, 2007) own revision

Also important in a development process is that the decisions which are made in the early stages of the development have implications for the following stages (Miles, et al. 2007). When the eight phases of Miles et al. are compared with the phases distinguished by the NEPROM there are many similarities, but different phases of Miles et al. come together in one NEPROM phase. In figure 2.3 the Feasibility, contract negotiation and formal commitment phase come together in the development phase of the NEPROM. That seems odd since the development phase is mostly the evolution of the designs of the buildings themselves and that is something totally different than negotiations and commitments. The development phase is also the phase where developers have to reach binding contracts, but it still is mostly about designing the building(s) (Nozeman, Handboek projectontwikkeling 2008). Miles et al. uses the feasibility study to convince different parties to get involved in the project. So the feasibility study is followed by the commitments in the sequence according to Miles et al.

NEPROM	Miles et al.
Initiative	Inception of an idea Refinement of the idea
Development	Feasibility Contract negotiation Formal commitment
Realization	Construction Completion and formal opening
Exploitation	Property management

Figure 2.3 NEPROM phases compared with Miles et al. (Nozeman, 2008) own revision

The development process has different steps and they all have their own difficulties and decisions that have to be made. Another important issue in the process is controlling risks. Controlling risks is an important way to make a development successful. These risk controlling factors will come back during this chapter. There are some risk controlling factors which are important for the whole development process (Miles, et al. 2007):

- avoid risk by stopping in stage one, two or three before much money is committed;
- invest in a good and thorough feasibility study to get to know everything about the potential project;
- combine and diversify to reduce risks and large losses;
- price all risks and accept them only when costs justify it.

2.2 Inception of an idea

The beginning of a development starts with an idea. That could be an idea for a certain location, an idea for a certain concept, a combination of the two or it can be started from the government. The idea inception is the first stage of the development process. The ideas can have different backgrounds but all the ideas have to be tested. Stage one is very important in the development process. Although weak leadership and poor management can ruin a good development idea, the converse is not true. Strong leadership and great management cannot save a bad idea (Miles, et al. 2007).

From the beginning on it is important to have the financial and non-financial objectives of the different parties well defined and well understood. The nature and relative importance of these objectives will shape the project and all decisions will be tied in one way or another to these initial objectives. In a complex deal with a lot of parties from public and private sectors, which is often the case in mixed-use projects, usually there are different objectives which lead to conflicts. So, it is important that all parties seek to understand the other parties objectives from the beginning. Maybe the most important thing to do is to make the non-financial objectives explicit so that their effect on the projects financial performance can be estimated, understood and justified. The projects can be heavily influenced by the party who initiates the project. These entities can be landowners, public sector organizations and private developers. In some cases they start the project together. Projects started by the public sector are different because when it is initiated by them it often is highly complex and involving a lot of parties. The process usually involves the public sector establishing objectives for redevelopment for a particular area. Developers without landholdings in a certain area are in business because they are constantly looking for profitable development opportunities (Schwanke 2003).

Developers can take several steps to reduce risk in stage one of the development process (Miles, et al. 2007):

- know yourself; Developers who honestly evaluate their own capabilities (financial, intellectual and emotional) will be better situated to deal with the pressures of development;
- know your image; understand what a developer does and how the public views the development profession. If the public perception is in the developers mind from the beginning, it will be more likely to win the support of others;
- know your team; developers must determine the quality of all participants in the development process at an early stage. The developer must decide what costs are justified from the perspective of reducing risk;
- coordinate; from the beginning, developers must coordinate the activities and functions of the individuals involved in the process. The team coordinated by the developer should function more smoothly than a collection of talented free agents.

- keep current; the developers should stay current in their reading and networking. This cannot guarantee profits but keeping up with major events helps minimize financial losses;
- behave ethically; personal relationships and ethics are critically important in the development process.

2.3 Refinement of the idea

A lot of the ideas in stage one don't even get to stage two; refinement of the idea. They, for example, have quality limitations or are not feasible due to financial reasons. If the idea looks promising it can go into the second stage of the development process. The intent in stage two is clear; the developers idea must either evolve into a particular project design associated with a specific piece of land or be abandoned before much more money is committed to the concept. Finding and acquiring a site and making an initial determination of legal and physical feasibility are the primary tasks in stage two (Miles, et al. 2007). In analyzing possible sites the following aspects are important (Schwanke 2003):

- proximity (adjacent land uses, nearby activity centers);
- access and visibility (highways, transit systems, pedestrians);
- the site itself (size, shape, topography, soils);
- services (utilities, roads, public facilities);
- land use controls (zoning, subdivision regulations, building codes, local government's attitudes);
- social and political issues and sensitivities;
- potential use (type and quality of use programmed, timing and size of markets);
- landownership (availability, assembly requirements);
- land costs in relation to these factors.

Associated with these primary physical tasks are marketing, financial and management functions, which combine with the physical tasks to allow the developer to feel reasonable confident of the project feasibility at the end of stage two. When there is a confident feeling, it gives the permission for a significant increase in resource commitment during stage three. During stage three the developer must demonstrate feasibility to all participants in the development process. In stage two however, it is the developer who must become convinced of the project's feasibility, because it is largely his funds that will be expended during stage three to convince the other participants of the project's feasibility. During the second stage of the process the following tasks have to be done as well (Miles, et al. 2007):

- scanning the environment for significant forces. Such as possible competitors, government jurisdictions, political power bases;
- analyzing the market, that is, the areas or neighborhoods in the market that might offer an appropriate site;
- analyzing the competition, competing development companies and competing projects;
- continuing to refine financial feasibility;
- setting market, physical, legal and political criteria for the proposed project;
- discussing the project with elected and appointed officials and city planners to ascertain their interest and any possible constraints on the project;
- determining initial design requirements for the site;

- negotiating for the selected site and structuring a contract (usually an option on the site) to secure the site;
- controlling risk during idea refinement.

Completion of these tasks culminates in a decision to move the idea to stage three, rework the idea, or abandon the idea. Stage two is a very complicated stage because there are a lot of activities and all these activities have to be done simultaneously and interactively. Risk control during stage two is mostly about how to option the land. It should happen in a way that there is no big risk for the least amount of money since it is still stage two so there isn't a concrete project. In addition to the purchasing of the site and all risks attached to that, there are other risks to think about. The acceptability of the project in the community for instance. If the project fits the general plan of a community there probably are less time-consuming delays. Presenting the project to city officials and building inspectors in an early stage to see their response is a smart thing to do since they get more committed to the project and could give suggestions which can be incorporated in the project (Miles, et al. 2007).

2.3.1 Initiative phase

The first phase of the NEPROM is called the initiative phase. This phase consists of one or more parties who are going to explore the market possibilities and the feasibility of social, technical and governmental issues. The economical feasibility study is also a part of this phase as well as talking with landowners, potential users and the government. The initiative phase ends when two things are finished. The parcel of land or the buildings that will be developed are bought and the initiator has to be convinced that there will be a project with a profit. That's why the first two phases come together in one NEPROM phase. When the initiator is convinced of feasibility of the project that marks the moment much more money is involved according to Miles and the NEPROM. The two aspects mentioned earlier are the two things that have to be done before the following development phase can start. Important things are the aspects that make or break a good initiative and project. These are; a well thought out plan or concept that has enough flexibility for changing market conditions and on the other side is using the current needs. The important parties need to have enough involvement in the project, proper timing and a good organization (Nozeman 2008).

2.4 The feasibility study

The developer has a strong feeling about the feasibility of the project in the second stage but he still has to show the feasibility to other parties which have to be involved in the project. The formal demonstration of viability is the goal of stage three. During stage three developers commit much more money to the project to perform more detailed analyses of different aspects. At the end of stage three it is still possible to stop the project but there is a much bigger investment involved. The feasibility in a development process is defined by James A. Graaskamp in "A rational approach to feasibility analysis". A project is feasible when the analyst determines that there is a reasonable likelihood of satisfying explicit objectives when a selected course of action is tested for fit to a context of specific constraints and limited sources. The primary task during the feasibility study is to produce a sound market analysis, one that uses the net operating income over the relevant time frame. Based on these projections the developer estimates value for the project by using discounted cash flow analysis. The project is feasible if that value exceeds all the projected costs of the development. When the feasibility study is completed it is a tool to get the different players, needed to fulfill the objectives of the development, together. During stages four through seven, it keeps

refining and it remains the most important management tool in the development process. So the feasibility study is the demonstration that the project is viable or not (Miles, et al. 2007).

The feasibility study can be seen as a follow up of the initial research of the project in general and the site evaluation. It can go in the same direction or use a slightly different approach due to different insights (Peiser and Frej 2004). The market study is an important, if not the most important part of the feasibility study. It analyzes all the long-term global, national, regional and local trends that were initially identified during idea refinement in stage two. Data on the real estate space markets (supply) and on employment, population and income (demand) are critical for the process. Understanding collection methodologies, reconciling contradictions of multiple data sources are critical. Without proper data analysis the feasibility study is much less reliable (Miles, et al. 2007). Although the market analysis is based on proper research, it still is assumption after assumption of the projected income of the project. Rents, lease-up rates, occupancy rates, operating expenses and interest rates etc. must all be forecasted. Relatively slight changes in any of these assumptions, particularly with big projects with a long time perspective, can result in major differences in the bottom line (Collier, Collier and Halperin 2008). Other critical market analytical elements are (Miles, et al. 2007):

- idea and target market for the project, from the big picture down to an absorption schedule for today in the particular market niche. Progressing from world to nation to region to city to neighborhood to site;
- a careful research about target market demand. Number of people, their requirements, their income. This all tied to the specific concept;
- identification of competitive properties along with the major features, functions and advantages of each;
- a sensitivity analysis to move from feasible to optimal, with individual evaluation of each variation in the plan;
- a review of risk in the optimal configuration, with appropriate risk management techniques

The market study in combination with the estimated costs will show if the project will be financially feasible. The same as it is for the market analysis counts for the estimation of the costs as well. Although a developer who is in business on a regular basis with similar projects has an idea about the total costs but until the architectural plans are completed and let out for hard bid, the cost of construction is at best an estimate. Shortage of labor or building materials or unexpected site or soil conditions can play an important role in generating extra costs (Collier, Collier and Halperin 2008).

To conduct a thorough feasibility study the first drawings of the project have to be drawn as well. There were some basic drawings in stage two but in stage three there has to be committed more money into the design of the project. These preliminary drawings show exterior elevations, specify floor lay-outs with rentable square space and salable units parking. Part of this work had to be done in stage two but in this stage the drawings have to be much closer to the final design plans than those needed in stage two. Although different architects and engineers can be used in the different phases, it is wiser to use the same team of architects and engineers. It is usually more efficient to use the same team throughout the whole process. Besides this it is important to decide the level of talent, sophistication and money that are needed for the designs. If it is a simple project it's better to use a cheaper team of designers than when it is a very complex project with lots of design risks (Miles, et al. 2007). In a mixed use project there are some extra aspects that have to be considered

then in a normal single use development. It is important to conduct a feasibility study of the whole project but it is also helpful to consider alternative development programs and strategies for the mix and scale of uses and check the feasibility of the alternatives (Schwanke 2003).

There are several ways to control the risks in stage three (Miles, et al. 2007):

- information and data are very important in the feasibility study. So the better the feasibility study is the less risk there is for unexpected differences in the estimates. So the more time, high-quality information and effort go into estimating all revenues and costs, the more likely it is to make a good decision. But overdoing the feasibility analysis is a waste of time and money that can seriously extend the length of the development process;
- the financing arranged during stage three affects the sharing of risks. Different lenders have different preferences;
- a review of the design plan by operating, marketing and construction professionals as well as public officials is critical in controlling risk. A review in stage three makes the negotiations in stage four much easier;
- check if the utilities and other infrastructure are available. Even though a project is legally feasible and publicly desirable, the city might be unable to provide utilities. It is important to start this discussion early;
- the interactions of a project with the surrounding sites and the impact of those surrounding uses on the property have to be checked. No sites operate in isolation.

2.5 Contract negotiation and formal commitment

The contract negotiation and formal commitment are stage four and five of the development process. The feasibility study which is done in the previous stage will be used as a sales- and negotiating tool in stage four. In stage four, the contracts are arranged for the decision to proceed with the project. Before these contracts are there, negotiation amongst all the participants is needed. Eventually this will lead to a detailed agreement for each member of the development team. The developer must ensure that all the different aspects of the project are covered by the collection of individual contracts and that various relationships among players are clearly defined (Miles, et al. 2007).

The negotiations for the contracts and different investments are very important during this stage. Negotiation is a crucial skill for a developer; a developer has to negotiate with banks, contractors, regulatory bodies, neighborhood groups, equity partners etc. Every development is unique; there is no formula that can be followed that will guarantee success for a developer. There is a constant balancing in the interests of many parties, interests that are often in tension. The developer must negotiate a solution. A good negotiation is not about winning or losing or ego fulfillment, it is about finding a basis on which to make an exchange. To find all the value in a situation, the parties must be willing to communicate reasonably, honestly and intensively about their true desires, wishes, expectations and the actual value they place on various outcomes. In order to have good negotiations it's important to use the following four principles.

Focus on the why, not the what. Often parties spend much time and energy arguing about the positions they have chosen without exploring the interests behind the positions. So they focus on what the other party wants without understanding the why behind the what. Often other means can

be found to satisfy those interests. If the positions are in opposition of one another it does not necessarily mean that their interests are also in opposition. Many times the parties have the same interests. *Find third-party standards, use respected authority and understand the power of precedents.* This is crucial to the credibility of the information given, particularly if the information is not welcomed. *Separate personalities from issues.* In negotiations there can be people who have a certain personal opinion about something which can lead to resentment of the whole group. It is important to keep this to a minimum and let them see the issues from other parties perspective. *Get creative, find additional value and search for the third alternative.* In some negotiations there is no simple solution and you have to be creative to find additional value (Collier, Collier and Halperin 2008).

Stage five represents the joint execution of the contracts negotiated in stage four. Contracts are very important in reducing and spreading risks. They set the rules for the physical, financial, marketing and operating activities that will occur during construction, formal opening and operation. With proper construction of the contracts, the developer will be able to spread the risk among the participants. Stage four and five are the last stages in which it is possible to get out of the project, since the feasibility is checked by all the participants and after that there will be a signed contract (Miles, et al. 2007).

2.5.1 Development phase

The big differences between both development schemes are in the stages after the feasibility study. The main goals described by Miles et al. are making contracts of the phases following the feasibility study, NEPROM is working on the project itself. The development phase is making the project, which looked feasible in the initiative phase, to a real project. So it consists of making the statement of requirements, the design, testing the design on the boundary conditions and making the implementation estimate. The idea evolves to a feasible plan: Financial and technical implementable, architectural implementable and market implementable. The development phase could be subdivided into three parts; definition phase, design phase and estimate phase. The first phase is making the statement of requirements followed by designing the project, based on the statement of requirements. The final part of the development phase is making the estimates and these documents will be the base on which the contracts are made (Nozeman 2008). So if we compare the methods of the NEPROM and Miles et al. the phases following the feasibility study are different. The NEPROM is mostly working on the design of the project and finally as a little part of this phase the contracts, based on the design. Miles et al. cares less about the design in stage four and five this is mostly done in the previous phases. It is more about how to find financiers and make binding contracts with involved parties.

2.6 Construction, completion and formal opening

The stages six and seven are about realizing the buildings them self. In stage six, the construction of the buildings, time becomes more crucial. In this stage there is more exposure to uncertainties, most of them negative and expensive. In the earlier stage it is still possible for the developers to keep the costs the low as possible. But during stage six the developer is fully committed, with cash, guarantees and human recourses. Once the general contract has been executed and construction commences, it is not easy to stop or make big modifications without incurring significant financial consequences.

Once the agreements are signed the developer switches to project management. The important items are time, quality and budget. The developer must ensure that all players perform their jobs on time, that they deliver the quality and that all the costs are monitored (Miles, et al. 2007).

Risks control during stage six and seven (Miles, et al. 2007):

- hold cash back to ensure that the contractor delivers satisfactory work;
- architectural supervision and construction project management are important risk control techniques. In addition to supervising the general contractor, developers can require contractors to include warranties in their contracts;
- liability, fire and extended insurance coverage are basic to controlling risk;
- program management systems are useful techniques for managing time and thus controlling risk. There are a lot of different programs with critical path analysis for construction. Some of these programs connect to the internet which help the communication between the involved parties;
- preleasing and presales reduce the risk of initial high vacancies, as well as paying attention to the mix of tenant;
- have guarantees of tenants that they are able to pay the rent for the leasing period;
- the operating agreement negotiated with tenants during the leasing process is another risk control technique. By controlling how tenants relate to one and another and to the building, developers can help ensure long-term operating viability and a minimum of maintenance problems;
- good internal controls, especially the accounting system are important during the development;
- it is essential to involve operating professionals in an early stage cause otherwise it can cost a lot of money when the building is finished.

2.7 Property, asset and portfolio management

After the development is completed, it becomes the responsibility of the property manager, asset manager and portfolio manager. It is the task of these three to deliver the cash flows and to maintain the physical structure and site so that it protects the long-term profitability of the buildings. The functions of the three are related and overlapping and they are essential to maximize the value of the real estate. The property manager is responsible for the day-to-day operation of the physical site. Their primary task is to ensure a high-quality environment for the tenants and thus a continuous cash flow for the owners. Asset management broadens the focus of property management and marketing beyond one physical facility and its users to several different properties that may employ a variety of property management and marketing teams. The portfolio management is responsible for a whole portfolio of properties (Miles, et al. 2007). This part of the development process isn't the main focus in this research.

2.8 Conclusion

So the sequence of steps to reach the eventual goal can be interpreted differently by various experts. This chapter showed the differences and similarities between the steps distinguished by the NEPROM and Miles et al. The main differences are in the stages following the initiative phase. The NEPROM is mostly working on the design of the project and finally as a little part of this phase the contracts, based on the design. Miles et al. cares less about the design in stage four and five this is

mostly done in the previous phases. It is more about how to find financiers and make binding contracts with involved parties.

If we make a short comparison with Ratcliff/Stubbs mentioned in the beginning of this chapter it shows that they again do the same things, but have another division of steps. So there are many different ways to get some sort of sequence of steps but eventually these things have to be done in order to realize the buildings; project start-up, testing feasibility, design, reach binding contracts and the realization of the building(s).

3. Area development and government in the USA

After the theoretical part about the comparison of two development processes in general, this chapter will go more into the development in the USA in specific. Important in this chapter are the parties involved in the development; especially the government and more specifically the involvement of the government in area development projects. This chapter consists of a description of the circumstances in the USA, the involvement of different parties and then the core of this chapter; the influences from the government and the involvement of the government.

3.1 Area development

Area development projects in the USA in the past were mostly characterized by spontaneous economic forces to start projects. But due to some changes and the functioning in a climate of changing public/private responsibilities and goals, the government nowadays plays a more important role (Miles, et al. 2007). At first the development involved simply acquiring a tract of land, filing a plat of its division into blocks and lots and then selling lots to buyers. But over time, a series of social, economic and physical factors brought about significant changes and increasing complexity to the process. In the early 20th century, zoning ordinances and subdivisions regulations were instituted as land use controls to protect public health and safety (Schmitz et al. 2004). Besides the big part of private investments in the USA there are some other aspects that influence the developments. Most places in America are based on the use of automobiles as the dominant mode of transportation, which led to much more horizontal, low-density and dispersed patterns of land use and development. There are many households that live in large homes on large lots, further encouraging horizontal land use patterns, reducing pedestrian connections and encouraging physical separation of uses into discrete districts. The implementation of land use regulations and zoning laws were intended to create order through the control and separation of land uses. Although this pattern prevailed through much of the 20th century, new mixed-use developments models emerged during the century that offered new approaches to both modern development and the mixing of uses (Schwanke 2003). The trend in regulations seems to be toward the use of criteria and standards that measure the performance of a development. The goal of more flexible regulations is to encourage greater sensitivity toward specific site conditions and to create neighborhoods containing a mix of housing as well as complementary land uses (Schmitz et al. 2004).

The development of real estate is not only in the hands of the developers themselves, there are many parties involved. Throughout the whole process it is important to not only look for its own feasibility but also check to see if the development still makes sense for each individual participant, given changing situations. The development team in the USA consists of many parties (Miles, et al. 2007): architects, urban designers, engineers, land planners, landscape architects, contractors, consultants, appraisers, attorneys, accountants, leasing agents, financial players, property managers, market researchers, PR-managers, regulators and the final users. So there is the internal development team but there are also people and organizations from outside that have their influence on the development outcome; the stakeholders. Figure 3.1 shows the development team in the middle of the more common stakeholders. They could, with different motivations, apply pressure to the development team to reconsider their approach. Developers increasingly have to be alert to the benefits of stakeholder engagement in all of their operations (Ratcliffe, Stubbs and Keeping 2009).

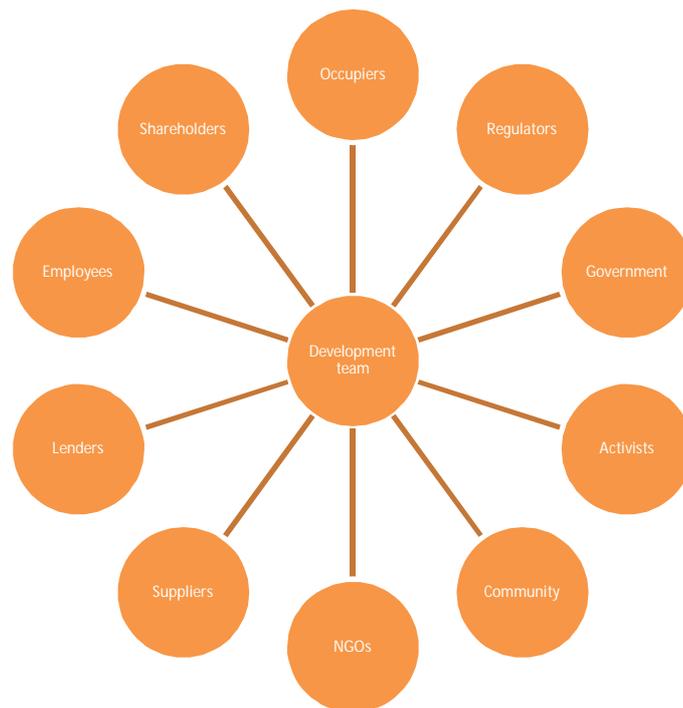


Figure 3.1 Stakeholders (Ratcliffe, Stubbs and Keeping 2009)

A very important stakeholder in area development and in this research is the government, so the rest of this chapter will be about the influences the government has and the involvement from the government.

3.2 Influences from the government

The development of real estate is inevitably in cooperation with the different governmental entities. The federal, state and local governments control the environment of the developer with property laws, public infrastructure, financial market rules, zoning, building permits and impact fees. If developers don't work together with the government, giving them the same attention as other private partners, delays and problems are likely to occur (Miles, et al. 2007). Early in the life of any project, perhaps before site acquisition, a regulatory and land use entitlement analysis should be performed to determine how laws apply to a project (Peiser and Frej 2004). This paragraph will go from federal, to state to local, which is the most important governmental entity in area development in the USA. Since the land use regulations vary among the USA, the regulations that are applied in California are used here.

3.2.1 Federal

Land use policy in the United States displays a huge internal variation. Unlike many other countries, the USA does not have a national land use planning law or any other national legislation that could be construed as its functional equivalent (Janssen-Jansen and Georgius 2005). Federal regulation of land use does encompass a range of interests, from housing discrimination to environmental protection. The environmental controls are the most important in the development process. The impacts on development can come into play during many stages of timeline of a project (Peiser and Frej 2004). The following environmental controls are important for real estate development: National Environmental Policy Act, Endangered Species Act, National Historic Preservation Act, Clean Water Act, Coastal Zone Management Act, etc. Development is most closely regulated at the state and local

levels, whereas federal enabling legislation, supported by judicial review, supports the local planning process in states, regions, counties and municipalities.

3.2.2 State

The State governments are not often involved in local land use and development decisions, which have been delegated to the City Councils and Boards of Supervisors of the individual cities and counties (Janssen-Jansen and Georgius 2005). This is also called the Local Home Rule and this system is deeply integrated in the USA system (Boarnet 2008). Although State governments delegate most regulation of land use and development to local governments, States have always exercised some control over development. Such as building of most of the major highways, roads on which so much development depends and they preserve large amounts of open space and preserve water quality. In general; State agencies pursue these programs with little attention to coordination among agencies or with local governments. But due to the smart growth movement² in some States it changed. All the acts set goals for development and require local plans, state agency plans and, in some cases, regional plans to be consistent with these goals (Miles, et al. 2007). California is the State with the most heavily regulated Land use and the States with strict land use regulations have undersupply of housing (Boarnet 2008). There are also states in the USA which are not that regulated for instance in Texas (Vandell 2008). Especially the capital Houston, the fourth largest city in the United States, is famous for not having zoning. Indeed, in November 1993, voting for the third time in a half century on the issue, Houston voters rejected a referendum to establish zoning (Collier, Collier and Halperin 2008). So there is a need of a planning system that protects the interest of everyone and creates sustainable places but also responds to those growth rates and that is difficult (Boarnet 2008). The California Planning guide (Governor's Office of Planning and Research 2005) says the following about the planning process in their state: "*Planning is the process of deciding how a community uses its land and other resources. The planning process involves analyzing the environmental and socioeconomic impacts of development and infrastructure projects. Planning decisions usually require local political approval, and reflect the desires and interests of the community. Local and state laws define the process for making planning decisions. The State delegates most local land use and development decisions to cities and counties. State law requires that each incorporated city and county adopt "a comprehensive, long-term general plan for physical development." This general plan is the foundation for community decisions that will affect the future location of housing, business, industry, roads, parks, and other land uses, protect the public from noise and other environmental hazards, and conserve natural resources. Each community's elected legislative body, upon recommendation of their planning commission, implements its general plan through its zoning, subdivision, and other ordinances. There is no requirement that adjoining cities or counties have identical, or even similar, plans and ordinances. Each city and each county adopts its own general plan and development regulations. In turn, each is solely responsible for the planning decisions made within its jurisdiction*". So the planning process is very much decentralized, it is even possible for local cities to implement their own development regulations. So the adjoining cities can have very different regulations and ordinances in order to reach their planning goals.

² Smart growth is growth that helps to achieve these six goals: neighborhood livability, better access and less traffic, thriving cities, suburbs and towns, shared benefits, lower costs and lower taxes, keeping open space open (Smart Growth America 2007).

3.2.3 Local

Each municipality has its own regulatory process, permitting requirements and development standards (Johnson 2008). The process can take anywhere from several months to many years, depending on how environmentally and politically sensitive the site is (Davidson and Dolnick 1999). The process is influenced daily by local, politically shaped points of view that reflect how, how much, where and when development will occur in a specific jurisdiction (Johnson 2008). It is not uncommon to also have conflicting requirements between local, regional, state and federal reviewing agencies. Many sites are subject to the approval of special agencies or commissions, which adds costs and time. For example, land in California that is located within 915 meters of the ocean is subject to the California Coastal Commission's jurisdiction (Peiser and Frej 2004).

Besides the differences among the local governmental entities, there are some other regulatory issues that affect most land developers in the USA: vesting of development rights, growth controls, environmental issues and traffic congestion. If developers had or could obtain zoning, they had the right to build what the zoning allowed. This presumption has been changed so the developers right to develop isn't vested, despite having spent considerable money. Development agreements became a popular solution for this problem. Development agreements, which are negotiated between the developer and the municipality, ensure that the ground rules under which a developer builds are the same as those that were in effect at the time the agreement was signed. Communities have adopted managed growth measures due to changing character of the community or overburdened infrastructure. The capacity of roads and intersections has become the deterrent in many communities of when and how much new development will be allowed. Developers are often required to build or pay for additional traffic lanes, install new traffic lights and even build new freeway interchanges to receive approval. The debates over growth management can also lead to positive changes in land use regulations. A growing number of governments provide incentives to developers of sensitive projects (density bonuses, waiving permit fees, fast tracking development proposals, etc.) if their project meets the city's objectives for development. Environmental issues became more into play from the 1970s, developers of larger projects in certain areas have been required to submit environmental impact statements and reports to receive project approval from federal and state agencies (Peiser and Frej 2004). The development regulations have become more complicated, developers face many decisions about making their way through the permitting process. Frequently, to develop a marketable product or to maximize their investments, developers request changes in the adopted plans or zoning or turn to special procedures that allow alternative uses or more flexible design treatment. A request for changes or special procedures usually exposes a project to closer scrutiny by public officials and the general public and often creates opportunities for public officials to require additional contributions of amenities or infrastructure. The use of these procedures has grown in recent years. In part, this growth has occurred because public officials have discovered that they can control the size and quality of development more directly through case-by-case reviews than through written regulations. In part, developers have found regulations too restrictive and thus request special procedures that permit greater flexibility (Miles, et al. 2007).

Now the general land use circumstances are discussed, it is possible to go more into the land use regulation tools of the local governments. These are: the Comprehensive plan (also called General plan), zoning ordinances, subdivision regulations and the building permit.

Comprehensive plan (General plan)

The comprehensive plan provides a statement of goals and objectives for the future development of the community (Schmitz et al. 2004). Depending on state enabling statutes, comprehensive plans may be either merely advisory in nature or legally binding on public decisions (Miles, et al. 2007). In California the General plan has to be implemented in its zoning, subdivision, and other ordinances (Governor's Office of Planning and Research 2005). Typically the plan's objectives address issues relating to the municipality's future development, including but not limited to the location, character and timing of future development. The comprehensive plan also addresses infrastructure, designating where expressways, highways, local streets, parking facilities and bike trails will be placed. Under Californian law, each city and county must have a Comprehensive Plan to guide its future growth and development (City of Palo Alto 2008). The staging and implementation element of the comprehensive plan is just as important as the land use for developers (Schmitz et al. 2004). According to the California Planning guide (Governor's Office of Planning and Research 2005) the General plan is a community's blueprint for future development. It describes a community's development goals and policies. It also is the foundation for land use decisions made by the planning commission, city council, or board of supervisors. The general plan must contain at least seven components (land use element, circulation element, housing element, conservation element, open-space element, noise element and safety element) addressing a set of basic planning issues. Each city and county determines the relative importance of these issues to their local circumstances and decides how they are to be discussed in the general plan. An action, program or project is consistent with the general plan if, considering all its aspects, it will further the goals, objectives and policies of the plan and not obstruct their attainment.

Zoning

A general plan is a set of long-term goals and policies that the community uses to guide development decisions. Although the plan establishes standards for the location and density of land uses, it does not directly regulate land use. Zoning, on the other hand, is regulatory. Under the zoning ordinance, development must comply with specific, enforceable standards. Zoning is applied lot-by-lot, whereas the general plan has a community-wide perspective (Governor's Office of Planning and Research 2005). For instance, a parcel of land with a residential land use may have multifamily zoning specifying 8 to 12 units per acre. Zoning is easier to change than the underlying land use. Each zoning district typically regulates the following (Collier, Collier and Halperin 2008):

- permitted use;
- size of the building permitted in relation to the size of the lot;
- required open space for residential uses on the lot or the maximum amount of building coverage allowed on the lot;
- number of dwelling units permitted on the lot;
- distance between the building and the street;
- distance between the building and the lot line;
- amount of parking required;

It assigns each piece of property to a zone which describes the rules under which that land may be used. The ordinance also establishes procedures for changing zoning. Figure 3.2 describes a number of flexible zoning approaches that may be incorporated into local ordinances. In stage two of

developments the current zoning for properties they wish to develop as well as procedures for rezoning have to be checked (Miles, et al. 2007).

Flexible zoning regulations	
Incentive zoning	A tradeoff between the developer and the municipality whereby the municipality may allow the developer to exceed the allowed height or density limitations in return for various public amenities. Such as public parks, open space or affordable housing
Performance zoning	It allows project approvals to be determined by the performance of the project instead of based on use of the project.
Infill zoning	Applicable in developed areas where vacant parcels remain, scattered and too small to meet current zoning standards for new construction. Municipalities allow for zoning changes to promote development of compatible but different uses. So it promotes (re)development in urban areas.
Planned unit development	The developer gets the flexibility to create a development that uses the land more efficiently than traditional zoning would allow, potentially creating a better community.
Cluster zoning	Is designed to meet the need for community development while providing specific plans for retaining open spaces and preserving the natural environment.
Floating zone	Similar to conventional zoning with the same requirements but the difference is that it is not fixed to the zoning map in any specific location. So it still needs to drop down on earth and then it replaces the current zoning requirements if it gets approved.
Overlay zones	They provide an additional layer of standards. They are often set up to protect natural and cultural areas such as historic districts, residential enclaves, wetlands, water fronts, and scenic views
Transfer of development rights	It allows landowners to sell their development rights to someone who owns land in the area where development is encouraged
Extraterritorial zoning	Empowers local governments to zone land outside their borders to conform development of adjacent land to their zoning.
Exclusionary zoning	Municipalities require minimum lot and house sizes and other restrictions that exclude multifamily or other high-density development.
Inclusionary zoning	Create more homes that are affordable to low- and moderate income households and to integrate those units into a diverse development fabric.

Figure 3.2 Flexible zoning regulations (Schmitz et al. 2004)

Subdivision regulations

The subdivision regulations provide public control over subdivision of land into lots for sale and development. They contain requirements and standards regarding the size and shape of lots, the design and construction of streets, water and sewer lines and other public facilities. The regulations require all developers to obtain approval of detailed plans before they can record and sell lots (Miles, et al. 2007). The local general plan, zoning, subdivision and other ordinances govern the design of the subdivision, the size of its lots, and the types of improvements that will be required as conditions of approval. There are basically two kinds of subdivisions; parcel maps (fewer than 5 lots) and tract maps (5 or more lots). Tract maps and parcel maps are approved in two stages (Governor’s Office of Planning and Research 2005).

- Tentative Map; upon receiving an application for a tentative subdivision map, the city or county staff will examine the design of the subdivision to ensure that it meets the requirements of the general plan and the subdivision ordinance. An environmental impact analysis must be done and an advertised public hearing held before a tentative map is considered for approval. If approved, the map will be subject to conditions that the subdivider must meet within a specific time period. While these conditions are being met, no lots have been officially approved.
- Final Map; when all of the conditions set out in the approved tentative map have been satisfied, and compliance certified by city or county officials, the city council or county board of supervisors will approve a final map. Unlike a tentative map, which can be denied if it does not meet city or county standards, the final map must be approved (with some exceptions) if it substantially complies with the previously approved tentative map.

Many communities require developers to contribute to the provision of public facilities related to their developments. Contributions may include dedication of land to the public sector, construction of facilities or payment of fees to be used for the construction of public facilities. These are also called exactions. Often, subdivision regulations require developers to fund, build and dedicate for public use the basic facilities required for residents and tenants of a new development; such as local streets, sewer, drainage facilities, parks and recreational facilities (Miles, et al. 2007).

Building permit

The length of time necessary to obtain a building permit is a critical factor in the development. It may take weeks or months between the initial submission of completed plans and the receipt of approval to commence construction. Often a site-clearing permit or even a foundation permit can be obtained in advance of the full permit, allowing substantial progress to be made and helping a fast track project stay on time (Collier, Collier and Halperin 2008). In most local ordinances, development of allowable uses does not require a public hearing. Increasingly, however, communities are requiring a public review of the project's design before a building permit is issued (Governor's Office of Planning and Research 2005).

Entitlement process

The next figure outlines a process used by many communities for subdivision plan review, rezoning or comprehensive plan amendments.

Concept phase	
Developer	<ul style="list-style-type: none"> • Identifies site, defines preliminary development concept • Evaluates feasibility of concept with consultants • May test ideas with citizen groups
Preapplication phase	
Developer	<ul style="list-style-type: none"> • Prepares basic description of proposed project, including location, types of uses, general densities, public facilities • Meets with public staff to discuss concept, define initial issues, determine appropriate approval procedure
Public staff	<ul style="list-style-type: none"> • Checks conformance of proposal with official plans and regulations • May test preliminary concept with other agency staff

Application phase	
Developer	<ul style="list-style-type: none"> • Prepares reports, drawings and plans for application
Public staff	<ul style="list-style-type: none"> • Routes application to other agencies • Meets with developer to resolve questions and problems • Initiates official notice of upcoming public hearing(s) to public and adjacent owners
Developer	<ul style="list-style-type: none"> • Prepares final plans
Public staff	<ul style="list-style-type: none"> • Prepares final report and recommendations to public officials
Public decision phase	
Public officials	<ul style="list-style-type: none"> • Conduct one or more public hearings at which developer presents plans (perhaps before multiple agencies)
Public officials, staff an developer	<ul style="list-style-type: none"> • Propose modifications or conditions necessary for approval
Public officials	<ul style="list-style-type: none"> • Approve, approve with conditions or deny application

Figure 3.3 Typical procedures for development approval (Miles, et al. 2007)

3.3 Involvement of the government

In many cases the public sector participates directly in the area development project through a PPP, especially in California in the redevelopment areas. The use of PPP's to meet a wide variety of needs dates back centuries in the United States (Corrigan, et al. 2005). In the 1950s and 1960s, PPP's in the USA were set out by the federal government as a tool for stimulating private investment in inner-city infrastructure and regional economic development (Fosler and Berger 1982). The local government became dependent on business investment, because of the absence of state and federal aid (Bult-Spiering and Dewulf 2006). By far the fastest-growing area for the use of PPP is urban economic development (Corrigan, et al. 2005) and that is the main focus in this chapter. The public-private approach has proved to be critical to these urban projects with complex site conditions, infrastructure demands or environmental contamination (Miles, et al. 2007). This paragraph will go into the different sorts of PPP's, the process and the lessons learned in the long history of PPP's in the USA.

3.3.1 Different sorts of PPP's

According to the National Council of Public Private Partnerships (NCPPP) a PPP is a contractual agreement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility (NCPPP 2010). Every PPP is different and every deal structure must be customized to meet the objectives of the individual public and private partners. There are three basic types of PPP's in the USA:

- major private developer participation with minimal public partner involvement;
- the traditional PPP;
- the public partner is primarily responsible for the project and is outsourcing selected tasks to the private sector.

The first is a more private driven development with little or no input on the design of the building(s) and the public party would be considered a marginal investor. The public partner may or may not provide capital or noncapital investments or provide land. In the more traditional PPP the public and private partners structure a fair and reasonable sharing of the costs, risks, responsibilities and economic return. Ownership of the project is usually divided into individual packages owned by either the private investors or the public entity. When the public partner is primarily responsible for the project, it finances and owns the project and may outsource the design, development, construction and/or facility management. The next figure summarizes the features of the three types of PPP's (Stainback, 2000).

Type of project and participating entities	Project task and ownership position					
	Design	Finance	Develop	Construct	Operate	Ownership
Private partner in conjunction with public entity	Private with little or no public input	Private with marginal public capital or non-capital investment	Private	Private	Private	Private
Traditional PPP's	Private with public input	Private and public entity	Private	Private with public oversight	Private or public	Private and/or public
Public partner in conjunction with private developer	Private contract or in-house public	Public	Private developer on a fee basis	Private with public oversight	Private or public	Public

Figure 3.4 Features of types of PPP's (Stainback, Public/Private Finance and Development 2000)

These are the three basic types of PPP's but a great quality of PPP's is the wide variety of ownership and investment options available for each party. According to the NCPPP there are many project delivery concepts which are shown in appendix 1 (NCPPP 2010).

3.3.2 Process of PPP's

Although chapter two was all about the development process, this paragraph goes into the pre-development process the government has to follow through, to be well prepared for a PPP. Each PPP project is unique in its local implementation, most share common stages within a development process bounded by legal and political parameters. Roughly the development process in a PPP follows the next sequence; in the first phase stakeholders opinions of the vision are surveyed and partners are selected through a competitive bid process. In the second phase, entities document the partnership and begin to define project elements, roles and responsibilities, risks and rewards, and the decision and implementation process. Partners also negotiate the "deal" and reach agreement on all relevant terms. In the third phase, the partnership attempts to obtain support from all stakeholders, including civic groups, local government (through entitlements), and project team members. Project financing begins and tenant commitments are secured. Finally, in the fourth phase, the partnership begins construction, leasing and occupancy and finally property and asset management (Corrigan, et al. 2005).

“Forge the partnership at the beginning and it will survive to the end” (Stainback and Dilullo 2001). There are some slight differences between the views from the public and the private parties, but one thing in common is; they both believe that the first phase is the most important. Although many sources like the NCPPP and ULI agree on the importance of the first stage of a PPP, it is Stainback who is a significant player who promotes this with governmental entities to put them in a position of strength with private developers (Stainback 2007). It is important for the government to control the predevelopment process. By controlling the pre-development process and knowing more about the needed civic or commercial development, public officials have the ability to negotiate with developers from strength. If public officials issue a Request For Proposal (RFP) to developers without being sufficiently knowledgeable, they will not be able to evaluate developer proposals well and may be vulnerable when negotiating a partnership. In addition to missing the opportunity to realize the appropriate return on public investment, public officials will not know the most advantageous ownership and investment position for the government (Stainback 2000). The next figure and paragraph are about the preparation that has to be done before a private entity is involved.

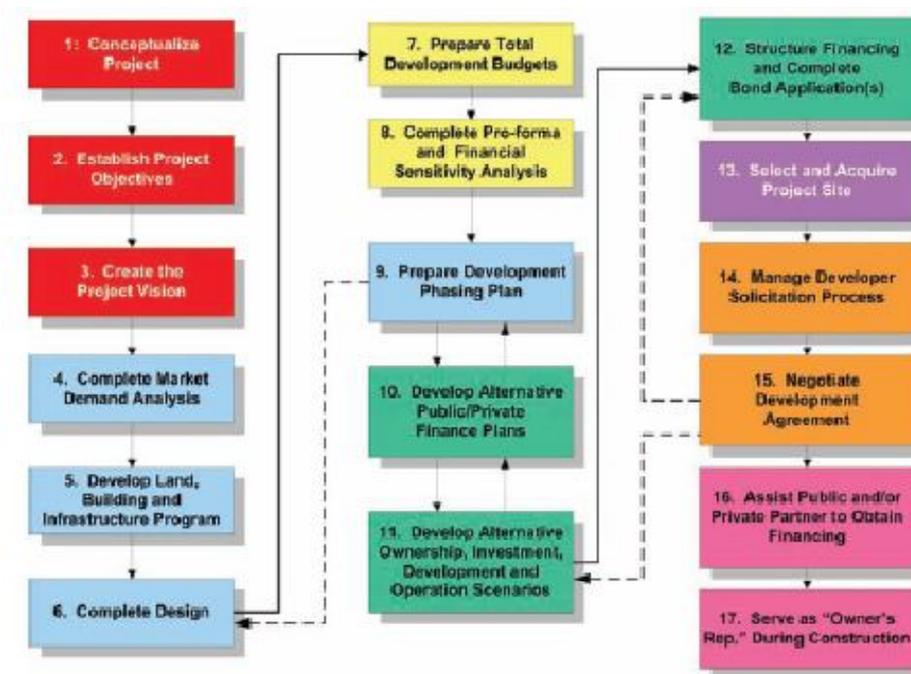


Figure 3.5 Pre-development process (Stainback Public/Private real estate)

Public preparation

The first step in the PPP development process is the conceptualization of the project. Several things have to be done: begin to establish a consensus among participants to structure and implement the project, determine what specific public entity will serve as the primary public partner, determine the most advantageous delivery method and identify the project leader. After that the objectives of the project have to be established, these objectives have significant effect on project features such as the: project delivery method, finance plan and the willingness to incur risks (Stainback 2000). The predevelopment process also establishes a vision that could be realized and indicates the level of preparedness of the public partner to structure and implement the proposed project. This vision should be the result of a consensus-building process that identifies the opportunities, objectives, and ultimate goals for the community (Corrigan, et al. 2005). Step four, determine market demand, is an important step according to Stainback. This seems odd since normally the developer would do that.

But in order to conduct steps five through twelve properly there has to be a sound market demand analyses and also the equity and debt investors will require the analyses.

Step four will be the basis for the next step; developing the land, building and infrastructure program. This has to be a comprehensive market driven program and it should provide project participants a complete description of the project including: building uses, gross building area, gross leasable area, parking requirements and infrastructure improvements required to implement the project (Stainback 2000). The local government has to describe the development strategy both verbally and graphically to ensure that both the public and the real estate community understand the program. The development strategy and vision have to be checked juridical. Streamlining building codes and regulations to remove potential obstacles help to establish an effective partnership and fast-track the process (Corrigan, et al. 2005).

In step six the public partner needs to illustrate the concept plan and a perspective sketch of the project. The objective is to develop a site plan with a sufficient level of detail to convey the vision and be specific enough to develop a preliminary estimate of the construction cost to implement the project. It is also helpful in this stage to look at the immediate and regional context of the project site (Stainback 2000). During step seven the total development budget has to be estimated not only the hard construction, land and site acquisition costs have to be estimated but also the soft costs like consultant fees, transaction fees, interest etc. Not only the total development budget has to be estimated the development schedule is also very important for the public partner. They have to make an estimate of the time to deliver the project, because they want to incorporate an agreed-upon time frame to complete construction in the development agreement. If this time isn't met by the developer they have to explain why they didn't meet the deadline or be penalized, otherwise the developer can tie up the project site for an unacceptable amount of time. In order to check if the project is financially feasible for the public partner they have to conduct a cash flow analyses in step eight. Depending on the market demand and the magnitude of the project it has to be phased in two or more phases in order to realize that the market absorbs the different project phases well.

Step ten is about structuring the financing in a way that the project is financially feasible. There has to be a fair and reasonable sharing of the risk of ownership, operation and development between the public and private parties. The same counts for the financing responsibilities, ownership position, return on investment and the design and construction responsibilities. Step eleven is about making different scenarios for the public and private partners to finance, design, develop, construct and operate the project. These scenarios should be laid out on a spectrum from the public partner being the 100 % owner, investor, developer and facility manager to another scenario where the private partner is primarily responsible for these things. This way the public partner can analyze the full range of project positions available.

Because the steps one through eleven are taken, the public partner knows the most advantageous ownership and investment position, the level of investment and risk, a general schedule for the project, the project is financially feasible, the selected developer will have a high probability of obtaining project approvals and the proposed building program and development phasing plan is market driven. After this the public private financing structure has to be established and public entity should acquire the project site (Stainback 2000) and have it environmentally analyzed (Corrigan, et al. 2005). This all ends up in the developer solicitation which will be described in the next paragraph.

Developer solicitation

Competitive tendering is the most common approach for the solicitation of developers. The competitive tendering mostly consists of (Bult-Spiering and Dewulf 2006):

1. Market consultation or request for information (RFI)
2. Request for qualification (RFQ)
3. Request for proposal (RFP)
4. Tender evaluation and short-listing
5. Negotiation with short-listed tenderers
6. Selection of the tender, award of PPP and financial close.

This is the most comprehensive method, it's also possible to conduct a two-step RFQ/RFP process, a single-step RFP process, a prequalified developer RFP process, a sole-source developer method or a RFQ/negotiate method. Important for all the six methods is that the government has to be prepared to communicate with the potential private partner. If the solicitation does not concisely and comprehensively convey the public private development opportunity, the typical private developer will detect problems and often quickly determines the opportunity does not warrant the time and investment required to meet even the minimum requirements of the solicitation.

Developers solicitation	
RFQ	
Phases	Schedule (weeks)
Develop the RFQ	2-3
Review and approve the RFQ	1-2
Establish and document the developers evaluation criteria	During steps 1 and 2
Identify the private sector companies to receive the RFQ	During steps 1 and 2
Produce and issue the RFQ	2-3
Give the allotted time to developers to prepare their proposals and for the public partner to answer questions posed by the recipients of the RFQ	3-6
Complete a preproposal conference	1-2
Evaluate developer proposals	2-3
Review results of evaluation with the appropriate government entity	1-2
Announce the short-listed developer teams	1
Total RFQ	3 to 5 months
RFP	
Develop RFP	1-2
Review and approve the RFP	2-3
Establish and document the developer evaluation criteria	2-3
Produce and issue the RFP	2-3
Allow developers to respond to the RFP and answer questions	6-8
Evaluate developer proposals	2-3
Develop questions for each developer interview	1
Arrange and complete interview of short-listed developers	1-2
Review results of evaluation and interviews with key members of the public partner	1-2
Rank the top three developers	1
Announce the selected developer	1
Total RFP	5 to 6 months
Total RFQ + RFP	8 to 11 months

Figure 3.6 Two-step RFQ/RFP process (Stainback, Public/Private Finance and Development 2000)

In order to get the private partners attention in pursuing a PPP they have to get information about the public partner, demographics, market circumstances and the public private development opportunity. They also want to know the submission requirements and an overview of the proposed developer evaluation and selection process (Stainback 2000). The two-step RFQ/RFP process is the most successfully developer solicitation process used in the USA (Stainback en DiLullo 2003) and this process is shown in figure 3.6. The developer with the lowest bid is not always the best choice. The best value in a partner is critical in a long-term relationship that is central to a successful partnership. A candidate's experience in the specific area of partnerships being considered is an important factor in identifying the right partner (NCPPP 2010). When the developer is selected the development agreement will be negotiated.

After the proper preparation of the public entity, the public entity and the private party work closely together from now on. They should be a team in order to (Stainback 2000):

- refine the building program;
- proceed with more detailed design work;
- refine the total development budget;
- incorporate these refinements into the cash flow analysis;
- refine the public/private finance plan;
- modify the development-phasing plan to reflect more market research;
- jointly continue to build consensus to implement the project;
- better understand the project approvals required to start construction;
- determine the specific responsibilities of each partner;
- finalize the ownership position of each partner.

3.3.3 Experiences in PPP's in the USA

Due to the long history of PPP's in the USA they have learned a lot about how it should or shouldn't be done. Cities and counties in the USA are rapidly applying the experiences with PPP's learned over the last few decades, experiences on how to most effectively combine the strengths and resources of both the public and private sectors. Significant refinements in the PPP process resulted from these experiences (Corrigan, et al. 2005).

Because PPP's consist of two or more parties it is very important to balance the strengths of these parties. The private sector gained its strengths because of the market competition and the public sector gained its strength through serving the public trust. They have the legal authority, protection of procurement policies, a broad perspective to meet the public goals and capital resources. The private party has the management efficiency, newer technologies, personnel development etc. These strengths have to be balanced very well in order to succeed (Norment 2010). Also important in this sense is that all the parties invest the time and effort necessary to get to know the other parties that are involved. Their background, reputation, experience, needs, financial strength, motivations, expectations, and goals are significant things to know about (Corrigan, et al. 2005). Not only the parties involved in the partnership itself have to be taken care of the other stakeholders have to be involved as well. So it is important to communicate openly with these stakeholders to minimize potential resistance to establishing a partnership (NCPPP 2010).

As discussed before the start of a project is very important. Many things have to be done right in the beginning because many projects take a long time in order to succeed. So everything that isn't sorted out in the beginning could have consequences for the rest of the project. For instance a development can have different political administrations; this has implications for the project since they could have a different perspective of a project than the administration that was in charge before. According to the ULI and the NCPPP on the one hand you need commitment from the top but also a shared public vision. This vision should be the result of a consensus-building process that identifies the opportunities, objectives and ultimate goals for the community. It has to be a shared vision where all the stakeholders help craft the vision cause than there is less possibility for opposition to a project (Corrigan, et al. 2005). The most important thing of this vision is that it can stand the test of time due to the representation of the community and other stakeholders in this vision. Since a successful partnership can only be the result if there is commitment from "the top". The most senior public officials must be willing to be actively involved in supporting the concept and taking a leadership role in the development of the partnership (NCPPT 2010).

Also in the early stages of the process, the public sector should assess its institutional capacity to act as a partner. Creating an entity to handle the partnership; such as a redevelopment authority or a quasigovernmental agency may be necessary (Corrigan, et al. 2005). The Community Redevelopment Act and later the Community Redevelopment Law³ give every city and county in California the authority to establish redevelopment agencies. Redevelopment agencies are unique among public agencies since in order to achieve goals of revitalization they must rely upon cooperation with the private sector. Therefore, virtually everything what redevelopment agencies have done is a partnership with the private sector (Reuschke 2000).

The initial community improvements made by redevelopment agencies, coupled with their commitment of funds and low-cost financing, reduce the cost and risk factors associated with these projects. Specifically, redevelopment agencies encourage private investment by (California Redevelopment Association 2008) (Reuschke 2000):

- The authority to buy real property including, if necessary, the power to use eminent domain⁴;
- Building or rehabilitating area infrastructure such as streets, sewers and water lines;
- Issuing low-cost loans or grants to small businesses that pay for physical improvements to their properties;
- Clearing an area of existing blight or environmental hazards that make projects too costly or unattractive to the private sector;
- Making quality of life improvements by building libraries, parks and community centers. Improving public safety and reducing crime by building police and fire stations;
- Building affordable housing, helping low- and moderate-income individuals become new homeowners, or funding rehabilitation of existing housing for working families.

³ The latest Community Redevelopment Law became in effect in January 2008

⁴ Eminent domain: also called condemnation is the power of local, state or federal government agencies to take private property for "public use" so long as the government pays "just compensation." The government can exercise its power of eminent domain even if the owner does not wish to sell his or her property (California Eminent Domain Law Group 2010)

- The authority to impose land use and development controls pursuant to a comprehensive plan of redevelopment. The Redevelopment Plan must be consistent with General Plan, but not with zoning (Bradish 2008)

Before redevelopment can occur, the city council or board of supervisors must survey an area and assess whether it is in need of revitalization. Once an initial review is completed, the local planning commission selects a project area and the redevelopment agency proposes a redevelopment plan which is later adopted by the city council or board of supervisors (California Redevelopment Association 2008). There are three options regarding the organization of redevelopment agencies. The vast majority of cities in California have appointed the city council as governing body of the redevelopment agency. But a redevelopment agency is always a separate legal entity from the city. That means that there is a clear legal distinction between the city council and its redevelopment agency (Reuschke 2000). According to Fulton; "there is simply no other planning tool in California that gives local governments such sweeping power" (Fulton 1999).

The public partner should also be resourceful with funding. An interesting way of getting funds for the project is Tax Increment Financing (TIF). TIF is also very much related with redevelopment agencies (California Redevelopment Association 2008). It simply is a mechanism that is using anticipated future increases in tax revenues to finance the current improvements (British Property Federation 2008). Federal and State funding have been greatly reduced so TIF is an option for cities to use for stimulating private investments. It works as follows; a project area that has to be redeveloped is identified and the property tax on the property is determined. This rate will be frozen at this level for a certain period of time⁵. After that, improvements are made and these improvements will cause neighboring property values to increase. The rise in property taxes creates more taxable revenue to be invested in the specific project area (Cullingworth and Caves 2009). The conclusion in many sources is that if this tool is used properly it is powerful tool for redevelopment, not only in the USA but also for Europe (British Property Federation 2008).

After getting to know each other and fully appreciate the goals and gains of all the involved and selected parties it is important to work out rules for the corporation. So there has to be an organizational policy and a detailed work plan (Wang 2006). The organizational policy is the foundation of the partnership, it establishes the framework of partnering and designs the way of collaboration. The policy should first clarify the core values and main purposes of a particular partnership and establish a number of non-negotiable, good-for-all principles. It should specify what partners want to achieve from this partnership and what the criteria for success are. The detailed work plan must be carefully developed beforehand. A well thought-out work plan, often done with the assistance of experts in the relevant area, can substantially increase the probability of success of a partnership. Oftentimes taking the form of an extensive and detailed contract a work plan should clearly describe the roles, responsibilities and decision-making structure of both the public and private partners (Wang 2006). The most important step is creating a road map for decision making, with a timeline to schedule project implementation. The road map should delineate a plan of action that is maintained throughout the process, particularly during the implementation of entitlements, deal terms, financing, design and planning, and the environmental review phase (Corrigan, et al. 2005). Also, in order to best manage the operation process of a partnership, a good work plan should

⁵ Depending on the individual State law

develop a method of dispute resolution since not all contingencies can be foreseen in advance and be written in the original contract (Wang 2006).

Municipal Home Rule works out in PPPs as well. Because of this legal doctrine, embodied in certain constitutions, statutes and judicial decisions, which grants cities broad legal authority to conduct their affairs without significant interference from State legislatures. Inherent in such a doctrine is the authority for a municipality to negotiate PPP's relatively freely, without substantial involvement and the associated delays and complexities of state level approval. PPP projects undertaken in Home Rule jurisdictions can benefit from a more manageable political environment and more flexible procurement due to locally fashioned rules, and offer a more competitive cost of capital as compared to municipal debt (Allen & Overy 2010).

Once a partnership has been established, the public party must remain actively involved in the project or program. On-going monitoring of the performance of the partnership is important in assuring its success. This monitoring should be done on a daily, weekly, monthly or quarterly basis for different aspects of each partnership (NCPPP). In many cases, the public partner defines the expectations for private partners, particularly in terms of their role and capacities. If the proposals are clear and accurate, they provide a strong framework by which parties can jointly implement a PPP. Project leaders and "go to" people should be targeted to handle specific tasks. Finally, partnerships must create and use mechanisms to allow continuous assessment of the effectiveness of decisions and implementation procedures. To resolve constraints, such as funding source requirements and bottlenecks in the process, partners must have the opportunity to modify the process (Corrigan, et al. 2005).

3.4 Conclusion

Although area development in the USA was a private driven market, the development regulations from the government have become more complicated, developers face many decisions about making their way through the permitting process. Land use policy in the United States displays a huge internal variation. Unlike many other countries, the USA does not have a national land use planning law. Each municipality has its own regulatory process, permitting requirements and development standards. The trend in regulations seems to be toward the use of criteria and standards that measure the performance of a development. A growing number of governments provide incentives to developers of sensitive projects (density bonuses, waiving permit fees, fast tracking development proposals, etc.) if their project meets the city's objectives for development.

The start of a PPP project in the USA is very important. The government has to prepare very well and get to know all the involved parties. The partnership has to be well documented and once the partnership is established there has to be ongoing nurturing in order to succeed. The use of the "redevelopment principal" to rehabilitate rundown areas is very interesting as well as the use of TIF.

4. Case studies USA

After the theoretical survey the theory has to be checked how area development in the USA works out in practice. So in this chapter there will be two case studies which show the practice of American real estate development. The first case study is Victoria Gardens in Rancho Cucamonga and the second is The Boulevard in Anaheim, they are both situated in California. This chapter will describe both of the cases.

4.1 Victoria Gardens

Victoria Gardens is a mixed-use development in Rancho Cucamonga. The project is located about 80 kilometers east of downtown Los Angeles. The mixed-use development was meant to be the new pedestrian-oriented town center of Rancho Cucamonga. This project is a result of a PPP among Forest City, the Lewis Group of Companies and the Rancho Cucamonga Redevelopment Agency (government). The development consists of department stores, shops, restaurants, a movie theater, a performing arts center, a library and 5,100 square meters of office space. The completed town center will also include a mix of 500 residential units. The total project will be about 222,960 square meters. Phase one, which we are talking about here is about 92.000 square meters (ULI 2006). Victoria Gardens, today, has about 130.000 square meter of retail, restaurant and office space with approximately 150 tenants (Daniels 2008).

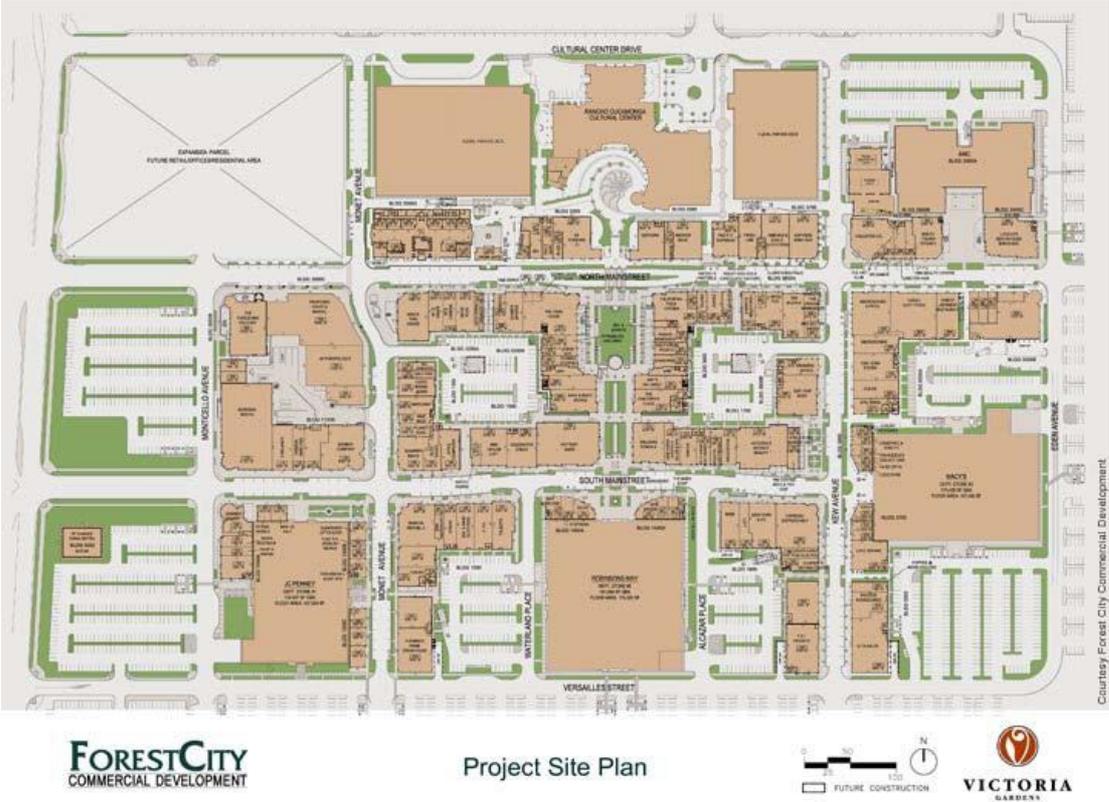


Figure 4.1 Map of Victoria Gardens (ULI, 2006)

The case of Victoria Gardens is very large; it occupies a 71 hectare parcel of land at an intersection of a highway in an increasingly affluent suburb of Rancho Cucamonga, in the heart of the Inland Empire. The Inland Empire is a dynamic and expanding demographic market and is the eleventh-largest and

fourth-fastest-growing region of the country. The project site is bounded by housing, an important Boulevard and a highway. The design of the project supposed to look like an area that had evolved through time. So they used different kinds of architecture in order to make this differentiation. To get a real town center there has to be differentiation in building style to “copy” the traditional European town center style. Parking was a problem with this project, the vast surface parking lots necessary to support this project were unsuitable with the pedestrian-oriented streetscape of a true downtown, so three parking garages were built instead.



Figure 4.2 Victoria Gardens; mix of building designs and pedestrian friendly spaces (ULI, 2006)

From the city’s perspective, the project has been very successful, generating much more in sales and property taxes annually. The estimated internal rate of return on the Rancho Cucamonga Redevelopment Agency’s investment exceeds 16.5% or more than \$167 million in revenues over a 30-year period. The project also created 3,000 new full- and part-time jobs by the businesses located in Victoria Gardens and spinoffs. Leasing was initially hard, but after some important tenants signed their lease contract, leasing additional tenants became much easier (ULI 2006).

4.1.1 Financing and PPP

The total development cost of the project was approximately \$234 million, including \$188 million in direct private costs, \$27 million in land costs funded by the Rancho Cucamonga Redevelopment Agency, and approximately \$19 million allocated to the project for special infrastructure costs. Several banks provided a \$130 million construction loan. Major infrastructure requirements for Victoria Gardens included regional drainage and street improvements at a total cost of nearly \$50 million. Public assistance was necessary for the project to be economically viable. As a result, creative approaches to financing, such as the use of TIF and community facilities district (CFD), which allows for financing of public improvements and services, were employed to make the necessary infrastructure improvements. The city of Rancho Cucamonga transferred the project site to Forest City for \$1, which was effectively \$13 million less than it had anticipated receiving for the sale. To enable the deal, land costs had to be absorbed by the municipality. As is the case with similar deals, there was a difference of opinion as to how much assistance the developer really needed. But given the novelty at the time of the open-air configuration and the high project costs, Forest City was unwilling to bear the land acquisition costs. The resolution of this issue was twofold. First, a look-back calculation is to be made four years after the center opens; if audited cost and income data show that the developer is achieving a return on cost higher than the target, there will be a partial

repayment of the land subsidy. Second, the Rancho Cucamonga Redevelopment Agency is entitled to a share of excess proceeds from the sale or refinancing of the project if proceeds are in excess of audited total development costs for the first sale or refinancing and the increased basis from sale or refinancing for each such event successively until the city recovers the extra \$13 million spent on land. In its pro forma, Forest City initially sought a return on cost of 11 percent; this target was the basis for its negotiation of public assistance. Current income, before expenses, exceeds \$26 million. While the project's net operating income is confidential, Forest City has disclosed that sales are at record levels for the company in this type of center (ULI 2006).

4.2 The Boulevard

The Boulevard is a project located in Anaheim, California. It is a Brownfield development⁶ which is established through a Public/Private joint venture between the Anaheim Redevelopment Agency and John Laing homes (ULI 2008). The project was a part of a broader strategy to revitalize downtown Anaheim and is located in the older part of the town. An overlay district was created to provide opportunities within the neighborhood. This is a typical development nowadays in the USA since there are many places who are trying to get a lively downtown again. This specific parcel was interesting for a walk able residential development because the Metrolink (regional rail service in LA County) and many major employers are nearby, such as City Hall, Disneyland and the Convention Center. The aspects that lead to a successful development according to ULI is the PPP between the developer and the city of Anaheim (ULI 2008).

The Anaheim Redevelopment Agency had two goals in mind when they wanted to develop the 5.3-acre (2.1 ha) former truck transfer facility along Anaheim Boulevard to housing; the revitalization of vacant, once industrial properties in downtown and the development of affordable housing. The agency used a competitive request for proposals (RFP) process to select John Laing Homes (JLH) as its partner to develop the site. The Boulevard was developed, at a cost of about \$19.6 million, in two phases: phase 1, 20 market-rate detached houses, completed in June 2005; phase 2, 36 affordable townhouses, completed in December 2005.



Figure 4.3 The Boulevard in Anaheim

⁶ Brownfield; are typically abandoned or underused commercial and industrial properties that contain some contamination that may affect their future constructive use. The property's future use will determine the necessary cleanup level (National Conference of legislature sd).

Because the project is located within the Anaheim Colony Historic District, careful consideration was given to designing a project that would blend into and complement the surrounding neighborhood. This development was the first in an area just beginning to make the transition from industrial to residential uses. It was the first housing project to be built under the Anaheim Boulevard overlay zone development standards (ULI 2007).

4.2.1 Financing and PPP

The redevelopment agency sold the site to JLH for \$3.5 million and reimbursed the homebuilder for environmental remediation and the construction of some off-site public improvements. As part of the partnership's Development and Disposition Agreement (DDA), the agency provided equity in return for a share in the sales of the market-rate houses. The agency's total investment in the project was \$4.65 million. It received payments of \$4.94 million from JLH and expects to receive an additional \$4.6 million in property TIF revenues from the project (ULI 2008). All the agreements between JLH and the redevelopment agency are put together in the DDA between these two parties. Also the agency will set aside \$1,000,000 from first time home buyers programs to income-qualified buyers for the planned affordable component. The final site plan, architecture and landscaping will be under the approval of the planning department and the Redevelopment agency. JLH obligation under the DDA is to obtain land-use entitlements, provide financing for construction and sale of the homes and construct certain public improvements along a road near the site (The City of Anaheim 2002).

5. Evaluation of area development projects in the USA

Previously there were two theoretical chapters about the area development process and the influences and involvement of the government. After that the two Californian cases were presented shortly. The theoretical chapters are the framework for the hypotheses that are made for this chapter. Every paragraph represents a hypothesis from the theory and will be checked with the cases and expert panel. The cases were presented shortly already, but the expert panel isn't. The expert panel consists of experts in the field of area development and these are professors, real estate development experts and government officials. In this chapter hypotheses about tax increment financing, the start of a project, redevelopment agency, local home rule, development process and incentives are being made.

5.1 Tax increment financing

From the previous theoretical chapters a hypothesis about TIF can be made; "TIF is a financial tool that is used to make an area development project financial more feasible". There are many ways an area development project has to be viable but financial feasibility is very important, if not; the most important. In order to make a project financial viable a concept that is used in many PPP's is TIF. According to the theory the future cash flows of the increment in taxes are capitalized in order to make an investment at the start of the project. It is just like normal investment decisions except the future taxes, which otherwise would be used for random public investments, now come straight into the development budget. Both of the cases that were explored for this thesis used TIF. The Boulevard generated an additional \$4.6 million in TIF revenues from the project (ULI, 2008). In the case of Victoria Gardens it is much more but this case is a lot bigger as well. The estimated internal rate of return on the Rancho Cucamonga Redevelopment Agency's investment exceeds \$167 million in revenues over a 30-year period in extra sales and tax increments (ULI, 2006). According to Worthington the cooperation between the public and private parties works out better because of TIF as well. A more comprehensive explanation of this subject will be given in paragraph 5.3. Since TIF is used in both of the cases of this thesis and it had a substantial contribution to the financial feasibility of the project, the hypothesis; "TIF is a financial tool that is used to make an area development project financial more feasible", can be confirmed.

5.2 The start of a project

In the theoretical part of this thesis many phases were discussed, but the most important phase is the start of a project. So a hypothesis from the theory that will be checked is; "the start of an area development project is the most essential phase of the process". In both of the cases the start of the project was essential. Both cases were initiated by the government. In the case of Victoria Gardens the land ownership belonged to the city of Rancho Cucamonga in 1997. In early 1999, the city issued a RFQ to develop a two-story enclosed regional shopping mall on the site (ULI 2006). The process described in chapter three in order to get the public partner in a position of strength before the RFQ, couldn't be discovered for this case. But according to Linda Daniels and the ULI the project went very well for the City, they prepared the RFQ properly since the redevelopment agency already had previous experiences with a RFQ (Daniels, 2008). This preparation is very important according to the theory and when a redevelopment agency has experience in this subject the private partner will have more confidence in the project (Puffer 2008). The city wanted to create a pedestrian-oriented town center. In order to do so they interviewed seven developers; six national developers as well as one

local development company. As the selection process evolved, Forest City folded its proposal into that of the Lewis Group, forming a partnership. In September 1999, the partnership was chosen and the fourth of November they signed the exclusive negotiation agreement (Daniels, 2008).

The case of the Boulevard started with the intent of the local government to revitalize the downtown of Anaheim (See, 2008). So again the government started the project and was the party that came with the inception of the idea. To make the development they wanted possible the City Council established a new overlay zone for the area, which included the parcel of this case. Before the overlay zone there was multiple zoning in that area, the new overlay zone superseded the underlying zoning plan to allow more residential and commercial real estate (See, 2008). This smoothed out the regulatory issues for the developer, because they knew how much time it was going to take to get the approvals and the intentions of the government were clear. For that same overlay zone the city of Anaheim established the Anaheim redevelopment agency. They used a RFP including a RFQ to invite a developer to work together (ULI 2008). This is exactly what the theory described; the two step RFQ/RFP process and the establishment of a redevelopment agency in order to get the most suitable developer and the best cooperation between public and private party. This shows how important the start of a project is; it is about the start of the long cooperation between the two parties and the selection of the best possible combination of parties. In June 2002 the agency approved an exclusive negotiation agreement with John Laing Homes (JLH) to build on the agency-owned parcel.

The expert panel has an opinion that confirms the hypothesis as well. The developer finds it important to study out many things before they go into a full grown process. For a developer a lot is about controlling risks so when they identify a piece of land they have to check how the political environment is, the possible selling price, possible densities, product they are looking for, market studies, environmental studies etc. So there are many items that have to be checked and when many of them are difficult the developer may stop right then and as a wise developer understands what they can deal with and what represents a stopping point before going into a full grown process (R. Puffer 2008). According to Vandell many people don't realize that the initial analysis takes the longest time of the development (Vandell 2008). In the beginning it is also important to get to know one another according to the theory, the experts agree on that as well. Worthington points out that area development parties have an adversarial relationship with one another. Both parties want to have the development but they want to control their own destiny as well so they have the same goals and different goals. To "merge" these goals is essential at the start of a project. (Worthington 2008). Due to the described start of the cases and the opinion of the experts the hypothesis "the start of the area development project is the most essential phase of the process", can be confirmed.

5.3 Redevelopment agency

According to the theory the following hypothesis can be made about a redevelopment agency; "a redevelopment agency is a planning tool in California that makes area development projects easier for public and private parties". In both of the cases a redevelopment agency is used in order to make an investment from the private parties possible. They can do so because the redevelopment agency can make initial community improvements, coupled with their commitment of funds and low-cost financing, reduce the cost and risk factors associated with these projects. The authority to impose land use and development controls pursuant to a comprehensive plan of redevelopment. The redevelopment plan must be consistent with General Plan, but not with zoning (Bradish 2008). In

both cases they made the initial improvements of the site, smoothed out the regulatory issues and had funds in place. The redevelopment agency is also a better partner for the private investor since they are experts in that area as well.

According to Worthington the redevelopment agency tries to make projects attractive and feasible that were otherwise infeasible for private parties. That is also why the cooperation between the public and private actors works out better this way. Because when development occurs the property taxes will rise due to that development and the redevelopment agency gets to use that increment. The agency gets a lot of that money and before it was just distributed to a lot of agencies and they use those increments to pay off their bonds because they had to build or buy property. So the redevelopment agency needs the private developments and because of that they have a common goal. If the private developer for instance says the economy isn't that good; now I am going to wait for five years. Then the redevelopment agency has to wait for five years as well and they don't want that, so they can offer incentives to get the private party developing. For instance: give more money, more density, creating a special team to get the entitlements faster. There are many incentives to give and this all happens because there is something to gain for the redevelopment agency. The key is; the redevelopment agency has the land and send out a RFP. A developer will get the "contract" and they don't have the carrying cost of the land. What happens then is that the redevelopment agency pays for the process costs or architect costs so the developer is highly incentivized to make the redevelopment agency happy at a minimum risk for the developer. The developer is giving up some of the control in the development but in return a big reduction of risks. It doesn't reduce market risk but it does reduce the development risks and costs (Worthington 2008). The hypothesis; "A redevelopment agency is a planning tool in California that makes area development projects easier for public and private parties", can be confirmed since the cases and experts proof that it makes the area development easier for both parties.

5.4 Local home Rule

The State governments are not often involved in local land use and development decisions, which have been delegated to the City Councils and Boards of Supervisors of the individual cities and counties (Janssen-Jansen and Georgius 2005). This is also called the Local Home Rule and this system is deeply integrated in the USA system (Boarnet 2008). According to the theory the following hypothesis can be made about local home rule; "due to the local home rule principle the local governments have more freedom in influences they want to have on area development projects". In the Victoria Gardens case the master plan and accompanying documents established a comprehensive set of land use regulations and constitute final discretionary approval of project development conforming to the Master plan. So after the approval of the Master plan the buildings were only subject to further design review of building and signage. The design review included review of exterior elevations of the buildings, tenant signage, building architectural aesthetics, exterior materials and colors. In the design review the city couldn't restrict the uses, floor areas or internal vehicular and pedestrian circulation systems otherwise permitted under the Master Plan, or require landscaping beyond that identified in the Master Plan. The design will be reviewed for conformance with the development standards and for adherence to the design directions established by the design guidelines. It was possible during the design review process that the director of planning approves minor changes of the requirements of the Master Plan without a formal Master Plan amendment. In the Master Plan they also stated that the City should process and render its decision on each design review application within 60 calendar days of receiving applicant submittal

of a site plan, elevations and color/materials samples, if applicable. The design review decision may be appealed by the developer to the City Council in writing within 10 days following applicant’s receipt of written notice of the design review decision. The City Council shall hear and affirm, modify or overrule the decision under appeal within 30 calendar days of submission of the appeal (City of Rancho Cucamonga, Forest City Development, Lewis operating company, 2002). So the City can establish its own regulatory process in conjunction with the private party. In this case the City can incentivize the developer with shorter entitlement processes.

According to the expert panel the advantage of local home rule is that the local people whose interests are involved are able to decide what is best for their own place in their own way (Boarnet 2008). In the 1970s there was something like the national land use policy act and it looked like there was going to be national regulations back then and there are some states that have federal land use regulations but part of the problem is many local jurisdictions are not cooperating with those regulations since the regulations are very weak, so everybody can build where they want. This led to sprawl in California (Vandell 2008). Despite the disadvantages the local home rule principle sometimes has the hypothesis; “Due to the local home rule principle the local governments have more freedom in influences they want to have on area development projects”, can be confirmed.

5.5 Development process

According to the theory the following hypothesis can be made about the general development process; “many things happen at the same time working to a certain moment in which the decision has to be made (the transition to the next phase)”.

5.5.1 Victoria Gardens

In figure 5.1 the most important parts of the development according to the developers (Wynne, 2008) of Victoria Gardens are shown.

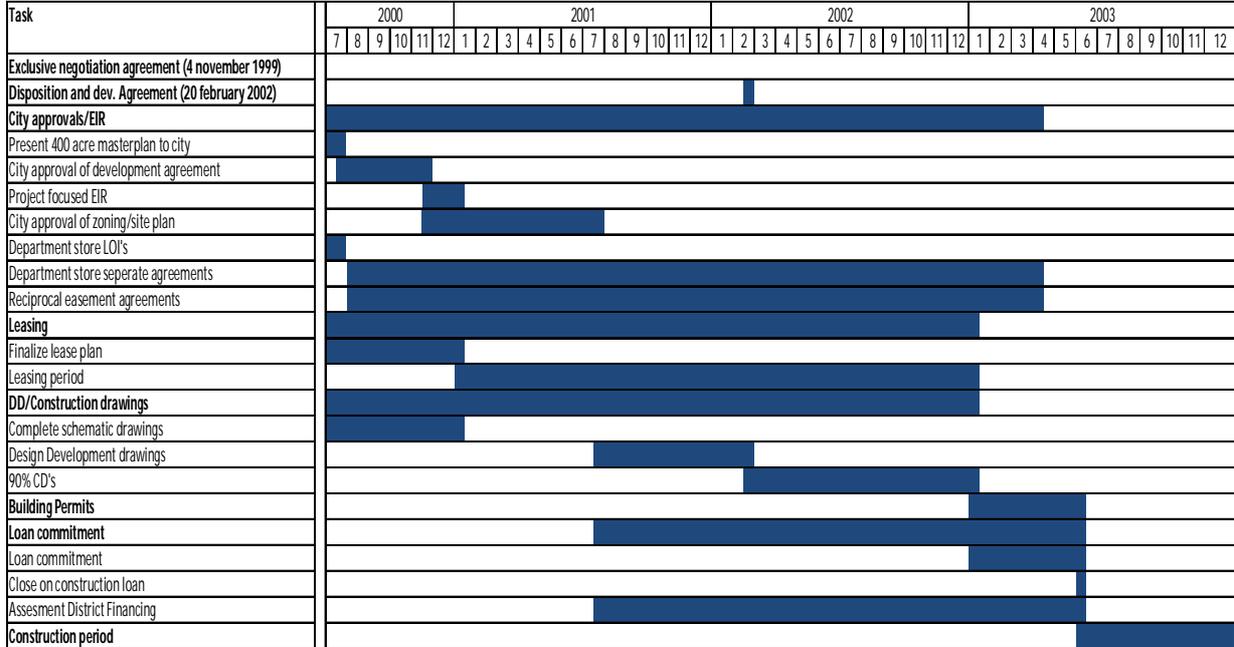


Figure 5.1 Process Victoria Gardens (Forest City development, 2008), own revision

The figure makes clear that it is an iterative process, many things happen at the same time. But in this process there are also phases to discover mostly visible through decision moments in the process

just like the theory described. The importance of the start of the development process was described in paragraph 5.2.

After they signed the agreement the next phase can start; the refinement of the idea. As plans for the mall evolved, Forest City recognized a need to differentiate it from nearby retail competition. There were a couple of enclosed shopping malls in the neighborhood so the plans for the mall evolved into a pedestrian-friendly, open-air mixed-use design. The open-air configuration differentiated Victoria Gardens from nearby competitors (ULI, 2006). From the start the city wanted an enclosed shopping mall, but Forest City urged city officials to scrap the planned mall and build a project with a more urban character. The city didn't think of that option and wasn't convinced in the first place. It took the developer several months to educate the city, but the good thing about that was that they had the city behind them for the rest of the project (The New York Times, 2004).

Since the exclusive negotiation agreement the PPP also worked on the Master Plan of the whole project. The Master Plan for Victoria Gardens was submitted to the City of Rancho Cucamonga in July 2000 and the plan was reviewed and approved by City Committees, the Planning Commission, and the City Council. The Master Plan was accompanied by three documents:

- an amendment to the General Plan (GPA);
- an amendment to the Victoria Community Plan (VCPA);
- an Environmental Impact Report (EIR).

The General Plan was amended to include the appropriate land uses. The Victoria Community Plan needed to be amended to be consistent with the Master Plan for Victoria Gardens. In the Master Plan there was an Environmental Impact Report (EIR) included as well. The EIR analyzes the potential impacts of the development and recommends mitigation measures, if necessary and applicable (City of Rancho Cucamonga, Forest City Development, Lewis operating company, 2002).

The Master Plan includes design guidelines and development standards, concerning issues of land use and zoning. The approval of the Master Plan for Victoria Gardens by the City includes:

- the amounts of development in gross floor area;
- the amounts of required parking;
- the overall plan for streets and open spaces;
- the land uses proposed;
- the standards and guidelines for development of buildings.

After submitting the Master Plan to the city the feasibility phase started. They started with making a leasing plan and the schematic drawings. The city was working on the development agreement and the approval of the Master Plan during that same time. In July of 2001 all the approvals from the government were there so the developer could start with the design development drawings. The contract negotiation started from there as well and finally in February 2002 the DDA was signed. The redevelopment agency entered into a binding Agreement with the developers for the development of the project. The agreement outlined financial responsibilities of the parties, the general description and expectation of what was to be produced, and time frames for performance (Daniels, 2008). Such a contract is significant in a PPP also to establish a road map for decision making, divide roles, ways of resolving problems etc. This is stage five in theory since there is a formal commitment

because they knew how much time it was going to take to get the approvals and the intentions of the government were clear.

For that same overlay zone the city of Anaheim established the Anaheim redevelopment agency. They used a request for proposal including a request for Qualifications to invite a developer to work together. This is exactly what the theory described; the two step RFQ/RFP process and the establishment of a redevelopment agency in order to get the most suitable developer and the best cooperation between public and private. In June 2002 the agency approved an exclusive negotiation agreement with John Laing Homes (JLH) to build on the agency-owned parcel. This again is the point in time where the second phase, the refinement of the idea, starts. The developer and the agency staff worked together to develop a conceptual site plan which was consistent with the density allowed by the overlay zone (See, 2008). During the rest of the project the partnership worked together on all facets of the development, including site design, entitlement processing, environmental cleanup, construction, marketing, and sales (ULI, 2007). JLH had an exclusive negotiation agreement and placed a \$100,000 "good faith" deposit to set up a time period to have the exclusive privilege to investigate the site and work with the City on their intended development. This time period is typically 90 days. This deposit came prior to the land purchase.

During the feasibility phase JLH investigated the site as thoroughly as possible, by requesting information about the uses of the site, a geological study and public utilities (Puffer, 2008). Concurrently with these reports being conducted, a market study is also prepared identifying the demand for home sales for households within the area. Besides this they prepared a home (townhome) size and layout. The preparing of this layout is part of the product development stage shown in figure 5.2. During this period the negotiations about the DDA took place as well. Finally the formal commitment between the public and private actor was there in 2003. After that the site plan was submitted to the Planning Department at the City for Review. The initial reviews generally take place as meetings, prior to the official submission to the City. At this site, JLH dealt with the Redevelopment Agency as well as the Planning Department. The Planning Department reviewed the site for physical constraints, such as street widths, parking and building distance from major streets. The Redevelopment Agency tends to look at the building elevations in the historic context, as well as harmony of the existing neighborhood. The official submission to the City is referred to as the Tentative Map filing, which were several site illustrations which demonstrate how the developer is complying to the above mentioned physical constraints (Puffer, 2008). This Tentative Map filing started in the beginning of February and ended in the end of May. So it took about four months. The final map will designate the physical boundaries of each lot within the site which will designate the entire parcel as well as the ownership of individual parcels that are subdivided and sold to each buyer. So JLH bought the whole site and got the approval to sell it in pieces.

The final map review begun with a few reviews by the Public Works Department prior to arranging a planning commission hearing. The steps that have to be taken are shown in the more comprehensive process scheme in the attachments. The initial review by public works took two months. The final map made it on the bi-monthly Planning Commission meeting and was up for an evening public hearing. Homeowners within a 300 ft. (+-90m) radius of the site to be developed were put on notice and could speak at this hearing to express support or concern. Often times a project will take more than one hearing while homeowners concerns are addressed as well as Planning Commissioner's concerns. After a 30 day appeal period the Final Map was recorded at the County office. It now exists

on paper as a land designation as the developer has designed it. The development of the Sewer, Storm Drain, Water, and Street Plans as well as all grading will need to be approved by Public Works which will take about four to six months. Each plan is approved separately, so demolition and grading can take place while approvals are being waited upon for the remaining infrastructure (Puffer, 2008).

According to Worthington working with a PPP is faster than the normal process. This concept has evolved in the government they know what they want and the developer can adjust his plans on it. In the partnership the issues are discussed rather than hearing them afterwards (Worthington 2008). The hypothesis; "Many things happen at the same time working to a certain moment in which the decision has to be made (the transition to the next phase)" can be confirmed. In the figures and the explanation of the process there is a clear distinction in phases. Between the phase transitions many things happen at the same time.

5.6 Incentives

The theory mentions that a growing number of governments provide incentives to developers of sensitive projects if their project meets the city's objectives for development, so a hypothesis; "incentivizing developers of area development projects helps reaching the objectives of the development" can be made.

These incentives can be different in many cases. In the case of Victoria Gardens the City of Rancho Cucamonga transferred the project site to Forest City for \$1, which was effectively \$13 million less than it had anticipated receiving for the sale. The resolution of this issue was twofold. First, a look-back calculation is to be made four years after the center opens; if audited cost and income data show that the developer is achieving a return on cost higher than the target, there will be a partial repayment of the land subsidy. Second, the Rancho Cucamonga Redevelopment Agency is entitled to a share of excess proceeds from the sale or refinancing of the project if proceeds are in excess of audited total development costs until the city recovers the extra \$13 million spent on land (ULI, 2006). In Anaheim the redevelopment agency sold the site to JLH for \$3.5 million and reimbursed the homebuilder for environmental remediation and the construction of some off-site public improvements. As part of the partnerships DDA, the agency provided equity in return for a share in the sales of the market-rate houses (ULI, 2008). In Anaheim they also established a new overlay zone for the area, which included the parcel of this case. Before the overlay zone there was multiple zoning in that area, the new overlay zone superseded the underlying zoning plan to allow more residential and commercial real estate (See, 2008). This smoothed out the regulatory issues for the developer, because they knew how much time it was going to take to get the approvals and the intentions of the government were clear.

Worthington mentions the importance of the redevelopment agency again. If the developer wants to wait for some years the redevelopment agency has to wait those years as well and they don't want that, so they can offer incentives to get the private party developing. For instance: give more money, more density, creating a special team to get the entitlements faster. There are many incentives to give and this all happens because there is something to gain for the redevelopment agency (Worthington 2008).

The hypothesis; "incentivizing developers of area development projects helps reaching the objectives of the development" can be confirmed because in both cases and according to an area development

expert giving incentives made the area development project possible and they were able to reach their objectives.

5.7 Conclusion

In this chapter the theory is compared with the cases and expert panel. In many ways the theory corresponds with the cases. Important aspects of the development which are commonly used in theory are also used in these cases. The following hypotheses can be confirmed:

- TIF is a financial tool that is used to make an area development project financial more feasible;
- the start of an area development project is the most essential phase of the process;
- a redevelopment agency is a planning tool in California that makes area development projects easier for public and private parties;
- due to the local home rule principle the local governments have more freedom in influences they want to have on area development projects;
- many things happen at the same time working to a certain moment in which the decision has to be made (the transition to the next phase);
- incentivizing developers of area development projects helps reaching the objectives of the development.

6. Lessons for the Netherlands

The previous chapters were all about the United States. There are a couple of things to learn from the way area development takes place there. The last question of my research is; which features of the area development projects in the United States could be used in the Netherlands to improve and speed up similar area development projects? Although many similarities and differences could be discovered between the USA and the Netherlands, four possible concepts which could be used in the Netherlands will be discussed in this chapter. The concepts shown here are possible concepts for the Netherlands but due to the different spatial planning, juridical and political circumstances it will remain uncertain whether it will work or not. However, these concepts are still interesting since they could be subject of further research whether or not it will work in the Netherlands. To check if it could work or what implications it could have goes beyond this thesis. The four concepts that will be discussed are: local home rule, redevelopment agencies, tax increment financing and incentivizing the developer. These concepts are used because it were commonly mentioned concepts in theory and were important in the cases and according to the expert panel.

6.1 Local home rule

Local home rule is a system that is deeply integrated in the USA system (Boarnet, 2008) Each municipality has its own regulatory process, permitting requirements and development standards (Johnson, 2008). Although there is a decentralized government in the Netherlands as well, there is still much influence from regional, state and European laws. For instance: the regional governments (provinces) decide where and how many houses should be built, the State decides that it takes 24 weeks to revise a zoning plan (Rijksoverheid sd) and European laws demands how the tendering should take place and how much time is needed (Kennisportal Europese aanbesteding sd). It is not that many of those things are bad, they have advantages as well. But the freedom local governments have in the USA should be something to think about. In the case of Victoria Gardens the local government in cooperation with the developers made the Master Plan which established a comprehensive set of land use regulations. After the approval of the Master plan the buildings were only subject to further design review of building and signage. They also agreed upon periods of time the City could use for the entitlement process. This gives developers a lot more certainty about different procedures. The local home rule principle is good for PPP's as well. The municipality can negotiate PPP's relatively freely, without substantial involvement and the associated delays and complexities of state level approval. PPP projects undertaken in home rule jurisdictions can benefit from a more manageable political environment and more flexible procurement due to locally fashioned rules, and offer a more competitive cost of capital as compared to municipal debt (Allen & Overy, 2010)

6.2 Redevelopment agency

According to experts and the cases in the USA the establishment of a redevelopment area and with that a redevelopment agency is a very powerful tool in order to realize projects that otherwise wouldn't happen or would take a lot more time. The special law that becomes in effect gives the City and the developer(s) a lot of advantages. It makes it possible to buy property, building or rehabilitating area infrastructure, issuing low-cost loans or grants, clearing an area of existing blight or environmental hazards, making quality of life improvements by building libraries, parks etc., building affordable housing, the authority to impose land use and development controls pursuant to

a comprehensive plan of redevelopment. The establishment of a redevelopment agency is not only important to make these things possible, but it also is a better partner for the developer, since they have a common goal. Although it is a governmental entity a redevelopment agency has its own financial responsibility and therefore they need the development and the private investments. This could be a solution for projects in the Netherlands since more and more projects take place in the built up area and these redevelopment areas are special purposes for the redevelopment of an urban area. Once the area is established a special law becomes in effect and creates certain possibilities that weren't there without it. For the same area a special governmental entity will be established that thinks about making the project feasible and how it should look like. They create incentives and smooth out regulatory issues and play a mediator between the City and the developer.

6.3 Tax increment financing

Due to the cutbacks from Federal and State funding in local governments, the state and local government searched for special ways of financing. TIF is one of those special ways of financing. This way of financing is also very much related with the redevelopment areas. This could be very interesting for projects in the Netherlands as well, especially because the investments made by the redevelopment agency have to be earned back through the private investments. They create the increase in property value and by that the needed tax increments. That is also part of the common goal the redevelopment agency and the developer have. This way of financing isn't a commonly used instrument in the Netherlands (Nozeman 2010). It works as follows; a project area that has to be redeveloped is identified and the property tax on the property is determined. This rate will be frozen at this level for a certain period of time. After that, improvements are made and these improvements will cause neighboring property values to increase. The rise in property taxes creates more taxable revenue to be invested in the specific project area (Cullingworth, et al., 2009). This increment can be capitalized in order to make investments possible for developers. After that the development should take place for the redevelopment agency to really create the increment in taxes. So this principle creates increments in taxes that otherwise possibly wouldn't occur and that's why it is logical that those increments go the specific project area and not to the general governmental budget.

6.4 Incentivize the developer

Because of the earlier mentioned Local home rule, redevelopment agencies and TIF it is possible to incentive the developers much better than in the Netherlands. For instance in the case of Victoria Gardens the City sold the land for \$1 instead of \$13 million. Four years after the center opens a look-back calculation was made; if audited cost and income data show that the developer was achieving a return on cost higher than the target, there will be a partial repayment of the land subsidy. Second, the redevelopment agency was entitled to a share of excess proceeds from the sale or refinancing of the project if proceeds are in excess of audited total development costs for the first sale or refinancing and the increased basis from sale or refinancing for each such event successively until the city recovers the extra \$13 million spent on land. An arrangement like this isn't possible in Europe since the European law prohibits illegitimate public aid (van Gelderen 2010). There are many other ways in which a developer can be incentivized for instance: density bonuses, waiving permit fees and fast tracking development proposals.

7. Conclusions and recommendations

The research goal of this thesis is to achieve an understanding of the realization of area development projects in the United States, in order to identify concepts, methods and approaches that could help improve and speed up similar area development projects in the Netherlands. In order to get to know the area development project in the USA there were some questions that eventually led to the features of the area development projects in the United States that could be used in the Netherlands to improve and speed up similar area development projects.

7.1 Conclusions

The expectation of the area development projects in the USA was that it was a much more private driven market without much influence from the governmental entities. During the theoretical exploration it became clear that the USA real estate market is dominated more and more by the government and is shifting to the Dutch habit of rules for the private driven development project. The hypotheses from the theory that were tested on both of the cases and the expert panel could all be confirmed. These were the following hypotheses:

- TIF is a financial tool that is used to make an area development project financial more feasible;
- the start of an area development project is the most essential phase of the process;
- a redevelopment agency is a planning tool in California that makes area development projects easier for public and private parties;
- due to the local home rule principle the local governments have more freedom in influences they want to have on area development projects;
- many things happen at the same time working to a certain moment in which the decision has to be made (the transition to the next phase);
- incentivizing developers of area development projects helps reaching the objectives of the development.

From these confirmed hypotheses a couple of them could be interesting for the Netherlands: the local home rule principle, redevelopment agency, tax increment financing and incentivizing the developer. Although these concepts are possible concepts for the Netherlands, due to the different spatial planning, juridical and political circumstances it will remain uncertain whether they will work or not. The local home rule principle is interesting because although there is a decentralized government in the Netherlands as well, there is still much influence from regional, state and European laws. The freedom local governments in the USA have should be something to think about. In the USA it is much easier to make local regulations that are suitable for the local development projects. The special redevelopment law that becomes in effect gives the City and the developer(s) a lot of advantages. One of these things is the establishment of a redevelopment agency which is also a better partner for the developer, since they have a common goal. Although it is a governmental entity it has its own financial responsibility so they need the development and the private investments. This could be a solution for projects in the Netherlands since more and more projects take place in the built up area and these redevelopment areas are special purposes for the redevelopment of an urban area. Once the area is established a special law becomes in effect and creates certain possibilities that weren't there without it. For the same area a special governmental entity will be established that thinks about making the project feasible and how it should look like.

They create incentives and smooth out regulatory issues and play a mediatory role between the City and the developer. An important tool the redevelopment agency has is TIF this could be very interesting for projects in the Netherlands as well, especially because the investments made by the redevelopment agency have to be earned back through the private investments. The last concept which is used in the USA is incentivizing the developer in order to reach the development goal of the government.

All these concepts match with each other. It is a package. Without the local home rule principle it isn't possible to give special incentives and smooth out regulatory issues in the way it is best for the local area development project. Because of the redevelopment law, TIF is possible. This is one of the most important things of the establishment of the common goal between the special governmental entity and the private developer. Since private investments are needed for the governmental entity to pay off their bonds, they want to have the development as soon as possible. Due to this common goal incentives are made.

7.2 Recommendations

The concepts that are shown in this thesis aren't tested in the Netherlands. Because of the different circumstances it is hard to say something about the possibilities that a special redevelopment law for instance could have. Although it is hard to say, this could be the most interesting thing together with TIF to make area development projects in the Netherlands easier. So this could be subject for further research in the Netherlands. What pros and cons are there? Is it even possible to incorporate the redevelopment law the way it is done in the USA or in a similar way? Is TIF possible in Dutch law or European laws? Are Dutch governmental entities able to establish a redevelopment agency? When do you establish a redevelopment area? Is it possible to use the increments in taxes for the development project instead of the public treasury? What complications does it have for the real estate developers? So there are many questions that should be answered before there could be thought about the incorporation of a redevelopment law in the Dutch area development projects.

7.3 Evaluation

This thesis has taken a lot of time. Because of that the vision on this thesis shifted from time to time. Eventually it led to a thesis mostly about the concepts instead of a process-oriented view on the area development projects in the USA. This is also because there wasn't much theoretical information about the area development process. Since the PPP's in area development projects became more and more important in the USA the focus became on the way that is done in the USA and what concepts are used. There still isn't a lot of theoretical information about area development projects in the USA, but there are many case studies especially in California. So to improve this thesis it would have been a good idea to incorporate more Californian cases. Since the focus of this thesis shifted, the in-depth interviews with the area development experts could have been better as well. Then it would have been possible to go more into the specific concepts that were discussed in chapter five. These concepts were discussed with the experts because they mentioned them as important concepts, but if this information was known ahead some deeper questions about the specific possibilities or problems of for instance the redevelopment law could be asked.

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Appendix