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PRACTICE GRAYFIELD REDEVELOPMENT

Turning Grayfields Green: The Role of Local Government in Helping Underperforming Commercial Properties

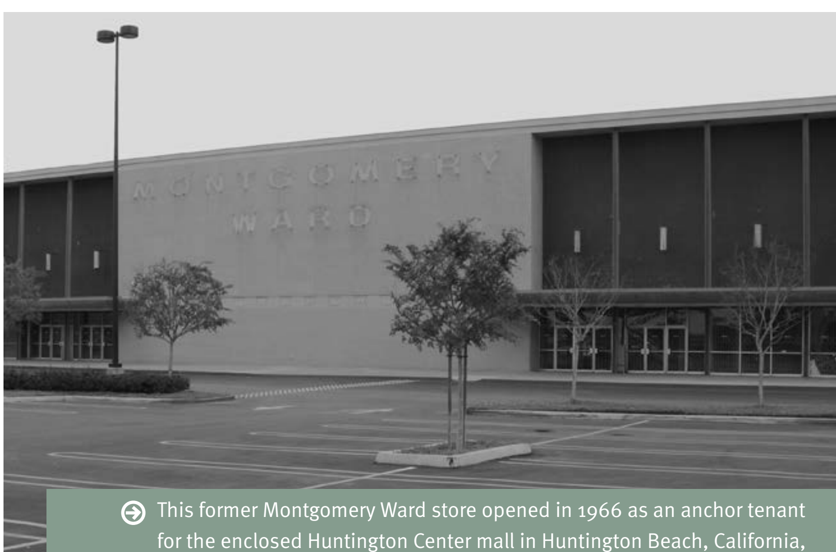
By James S. Davenport III, AICP, and Connie B. Cooper, FAICP

Change is a reality that local governments face every day, but with change comes winners and losers.

The winners are new commercial centers with current merchandise and full parking lots, while the losers are commercial centers showing their age, filled with marginal businesses and a sea of empty parking spaces. These once thriving commercial corridors have incrementally transitioned into "grayfields."

Grayfields is a collective term used to describe underperforming, obsolete, and often vacant or deteriorating commercial centers. They range in size from small strip centers, to abandoned big box buildings, to entire regional malls (CNU et al. 2001). These grayfields are experiencing significant disinvestment and turning into visual blight. But for a local community, a grayfield is more than just visual blight. It means loss in tax base, job opportunities, and economic confidence, not to mention enormous development potential sitting unused or underutilized.

Though the term *grayfield* is not as well-known as *brownfield* or *greenfield*, the public's awareness of grayfields is increasing as their numbers multiply and their negative economic impacts are recognized.



Matt.90

This former Montgomery Ward store opened in 1966 as an anchor tenant for the enclosed Huntington Center mall in Huntington Beach, California, and closed in 2001 along with the rest of the chain. In 2010 it was finally demolished to make space for the mixed use Village at Bella Terra.

HOW DID THIS HAPPEN, AND WHO ARE THE CULPRITS?

For decades, a combination of misdirected public policy and overzealous construction and development of strip shopping centers and suburban malls has led to an abundance of grayfields. Added to the mix of grayfield culprits are changes in demographics and consumer trends.

Federal Actions

Changes in the federal tax code in the mid-1950s, designed to spur investment in factories, also allowed for a greatly accelerated depreciation timetable for commercial properties. This produced an unintended boom in all types of commercial construction, especially in suburban communities. Investors stopped building for the ages, instead perfecting construction techniques to match the tax timetable. This "disposable building" was again incentivized by Congress in 1981 when the tax code was changed to allow full write-off of commercial buildings not in 40 years, but in 15 years (Hantchett 1996 & 1998).

Coupled with federal tax breaks, the 1950s ushered in the construction of the interstate highway system. More than 46,000 miles of highways with access limited to key interchanges have funneled customers and businesses with deep pockets (oil company gas stations, shopping malls, and national and regional chains) toward these interchanges, leaving behind older commercial areas with less advantageous access and less recognized national name brands.

Category Killers

"Category killers" such as Home Depot, Target, and Walmart are large format stores (100,000–200,000 square feet) that absorb consumer demand previously satisfied by smaller, often locally owned stores. To grab market share, these retailers build more retail square footage than the market can support. From 1990 to 2005, the amount of retail space in the U.S. doubled, while per-capita income rose by only 28 percent (ILSR 2009). This overbuilding continues to contribute to grayfields.

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About the Authors

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Demographics

Changing demographics may be one of the most significant catalysts generating grayfields. In 1960, 48 percent of U.S. households had children. By 2010 that number had fallen to 33 percent, and by 2030 it is expected to fall to 27 percent (Nelson 2013). This drop in households with children reduces demand for clothing, furniture, and a host of other consumer goods, all directly impacting the demand for commercial square footage. Baby boomers entering retirement age, with their reduced level of spending on consumer goods, are also impacting the demand for retail space.

Consumer Trends

Like downtowns that lost retail activity to the "mallification" of America in the 1960s, many suburban malls are turning into grayfields. They are victims of rapidly changing consumer tastes in shopping experiences (Chilton 2004). Online retailers such as Amazon and eBay are also having a dramatic effect on the demand for retail space.

Local Governmental Zoning Practices

Local government has also played a role in the prevalence of grayfields. The growth of grayfields is partially attributable to "fiscal zoning," which is local government's effort to maximize tax revenue by increasing commercially zoned land without regard to actual market demand. In 2009, it was estimated that the U.S. had more than 23 square feet of shopping center space per capita—10 times the per-capita amount in Europe (Nelson and Symes 2009).

WHY SHOULD LOCAL GOVERNMENT CARE?

Some would say grayfields are a private property issue, not an issue that affects local governments. However, a study of underperforming and vacant commercial properties identifies some key reasons why planners and their respective jurisdictions should take grayfields seriously (JD Wilson Associates et al. 2002).

Some of the associated negative impacts of grayfields are a loss of local property and sales tax revenues; negative effects on adjacent property values; a loss of jobs and wages; increased targets for graffiti, dumping, and crime; and a loss of investor confidence in a community.

On the flip side, there is an opportunity to convert underutilized commercial sites into active land uses that spur the local economy. Unlike brownfields, grayfields typically do not require remediation for redevelopment to occur and, because of their subpar condition, they may be acquired at lower costs. Grayfield sites offer opportunities to build sustainable

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A big box store surrounded by a sea of underutilized parking is a common sight in communities across the country.

www.pedbikeimages.org / Dan Burden

Federal transportation and tax policies coupled with local fiscal zoning policies led to explosive growth in cheap, highway-oriented commercial development in the second half of the 20th century.

developments and new neighborhoods within existing communities. In many established areas, grayfields are primed for redevelopment because they provide the first wave of potentially available large landholdings, often near transit, having existing utilities and a convenient transportation network, with opportunities for significant increases in building density (CNU et al. 2001).

BARRIERS TO REDEVELOPMENT

Barriers to redeveloping grayfields are many. They include market barriers, financial barriers, physical barriers, and unfortunately, governmental barriers.

Market barriers

The key challenge to redeveloping grayfields is the market. U.S. demographics have changed drastically since the 1960s. Given narrowing demographics, retail investors tend to go for the lower-risk investment, and aging and obsolete retail centers tend to be higher-risk investments despite their many advantages. Added to this is the increasing threat online retailing poses to bricks-and-mortar stores.

Financial Barriers

Many owners of underperforming or vacant retail properties are absentee or underfunded owners. Their properties generate sufficient revenues to remain viable investments but not enough to reinvest in upgrades or other capital improvements. Thus, these properties attract low-sales-per-square-foot tenants such as consignment shops, flea markets, and bulk sales (DVRPC 2005). Consequently, these undercapitalized owners cannot afford the cost of redevelopment to attract higher-end tenants.

Physical Barriers

Grayfields have physical limitations such as obsolete, difficult to retrofit, or extremely expensive buildings to demolish and rebuild (JD Wilson Associates et al. 2002). These sites are often surrounded by similar underperforming commercial properties. In some cases, abutting residential property owners may stymy redevelopment by opposing change—even though the existing property is failing.

Governmental Barriers

Most grayfield properties were constructed under older zoning and building codes that have changed substantially, thus making these properties nonconforming. New development standards can "kill a deal" if the site does not meet the requirements for parking, landscaping, or stormwater management. Purchasers of these properties frequently face long delays because of lengthy rezoning and approval processes.

POSSIBLE SOLUTIONS

Planners and local governments cannot change the market barriers to redeveloping grayfields, but they can successfully address many of the physical impediments and most of the governmental barriers (e.g., zoning and administrative review actions and relief). And, through incentives and partnering, they can have an impact on some of the financial barriers.

Zoning Solutions

Zoning can be a powerful tool to encourage redevelopment of grayfields, but it can also be a major impediment to redevelopment. Properly structured, local zoning ordinances can incentivize redevelopment of grayfield sites to encourage revitalization within communities. The following are ways that zoning can be redevelopment's friend rather than its foe.

Proactively rezone properties. Government-initiated rezoning of properties is an effective tool for encouraging redevelopment of grayfields. This is an ideal implementation tool for the jurisdiction's comprehensive plan—thus linking this initiative to the goals and policies of the plan. Rezoning properties to mixed use or higher-density residential in areas where the jurisdiction wishes to see change occur can accelerate positive change. Waiting for a land owner to request rezoning places the full burden on the owner. Consequently, these properties often continue as marginal contributors to the tax base, frequently become problem areas for code and law enforcement, and suppress nearby property values.

Administrative zoning relief. As mentioned above, grayfields are frequently infill sites that have a host of challenging existing conditions (building and property) that make them particularly difficult to develop. Being proactive and creative by empowering staff with the ability to grant administrative relief from some of the zoning ordinance's provisions such as parking ratios, building setbacks, impervious lot coverage, landscaping, and other standards enables these sites to be developed more readily. The nature and extent of this administrative latitude can be specified by adding policy statements and relief standards into the zoning ordinance. These statements and standards set forth the purpose of such powers, the geographical areas or conditions to which they apply, the amount of latitude (often a percentage but can be stipulations for how things are counted, such as available parking), the zoning requirements from which relief may be applicable (parking, setbacks, etc.), and possibly the length of term for which the relief is granted (e.g., permanent relief if the redevelopment occurs but a safeguard if the development does not go forward).

Fast track reviews. Accelerating the review process for previously developed sites goes hand in hand with granting administrative relief. Reducing review rounds and times between reviews, as well as eliminating certain formal actions by governing bodies for grayfield sites that meet predetermined criteria, can mean significant savings for applicants as well as reducing the potential in loss of development financing because of approval delays. Fast-tracking assessment of utilities, easements, access points, and plat approvals are key elements of this process.

Zoning bonuses. Jurisdictions have frequently offered density or height bonuses in exchange for public parks, affordable housing, or other public benefits. However, such zoning bonuses can be also a strong incentive for redeveloping grayfield sites. Given the development challenges of these sites, additional incentives to increase the return on investment may raise developer interest in grayfield sites. Despite marginal tax revenues, jurisdictions must continue to pay for roads, water systems, and other public facilities adjacent to these sites. Zoning bonuses can incentivize redevelopment in areas already served by public utilities and roads, rather than have this development occur in greenfield locations requiring additional public services.

Overlay zones. Overlay zoning is an effective tool to permit specialized land-use standards within a targeted area without changing the underlying zoning district. Jurisdictions use overlay zoning in areas where they wish to permit a mix of uses not permitted by existing zoning districts or to modify standards such as parking and signage. Redevelopment corridors can employ overlay zoning to permit unique zoning conditions within the corridor to incentivize reuse of grayfield sites without requiring rezoning of the sites.

Simplified conditions. Redevelopment of grayfield sites often requires rezoning or site plan approvals. During this process, many jurisdictions will overburden the approvals with rezoning conditions, frequently in response to adjacent residents' demands for various "protective" conditions. Local officials, with guidance from their planning staff, should weigh the overall value of the grayfield redevelopment proposal and consider the reasonableness and financial implications of each proposed condition of approval.

Grandfather clauses. Local governments can make it easier for developers to rehabilitate grayfield sites by adding additional grandfather clauses to their existing zoning or-

CASE STUDIES

▼ Adding Flexibility in Fairfax County, Virginia

Just outside Washington, D.C., is Fairfax County, a prosperous county with more than a million residents, but like many metropolitan suburban counties, Fairfax County was concerned about the economic viability of its older commercial corridors. Responding to this concern, the planning staff used the comprehensive plan to identify and designate two Commercial Revitalization Areas (CRAs) and five Commercial Revitalization Districts (CRDs). According to Community Revitalization Director Barbara Byron, the county uses overlay zoning in the CRDs that allows greater regulatory flexibility, facilitated administrative procedures for development review, and specific urban design standards for streetscape and landscaping. The overlay district permits staff to grant administrative approval for reduced front yard setbacks, parking requirements, parking lot landscaping, and screening requirements, while permitting increased building floor area ratios and heights. The overlay district also allows owners or tenants to replace nonconforming signs with smaller signs, even if the newer signs exceeded the current regulations, which has facilitated replacement of older, deteriorated signage.

The CRAs do not have separate zoning overlay districts but are eligible for the facilitated administrative procedures and can take advantage of certain provision of the CRDs overlay zoning. The CRDs/CRAs have allowed greater flexibility in zoning regulations, expedited administrative approvals, and established unique urban design standards for streetscape and landscaping appropriate for redeveloping grayfields. The Mosaic—Merrifield Town Center is an example of Fairfax County's successful grayfield redevelopment efforts. This 31-acre, aging commercial site was proactively rezoned by the county to create the Mosaic District. Upon completion, the site will have approximately 625,000 square feet of commercial and office space, 1000 residential units, a multiplex theater, and a hotel (Fairfax County 2014).

▼ Empowering Staff in Cheyenne, Wyoming

Cheyenne, a city of 60,000 residents and the capital of Wyoming, has added elements to its unified development code (UDC) to facilitate reuse and redevelopment of infill sites. According to Brandon Cammarata, AICP, Cheyenne's planning and development director, the UDC authorizes "administrative adjustment" to encourage infill and redevelopment in Cheyenne (§2.3.4). The administrative adjustment is focused on infill and redevelopment projects that typically have many more constraints than new development sited on the edge of the city.

Recently local officials increased the UDC's administrative adjustment from 10 percent to 50 percent to enhance the effectiveness of the code provision; however, eligible sites are required to meet a set of review criteria in the UDC before an adjustment may be granted. This includes confirmation that the relief requested is compatible with the character of the surrounding area in terms of building scale, building form, landscape, and site design. The administrative relief also applies to nonconforming sites with regard to parking, driveways, or other nonstructural site characteristics.

In addition, the UDC includes parking provisions to make redevelopment easier. When a new use is proposed for a site that requires more parking than the existing use, the new use is responsible only for the additional parking required (essentially grandfathering existing parking deficiencies). This is subject to the director's discretion, and it must be necessary to promote effective infill development (§6.2.2.b).

▼ Avoiding Future Grayfields in Bozeman, Montana

Bozeman, Montana, a city of almost 40,000 in southeast Montana, added provisions to its unified development code to require a "renewal plan" for large-scale buildings that maximizes rehabilitation or redevelopment potential in the event of closure or relocation by the original occupant and provides a maintenance plan for normal repairs and upkeep of property. The code stipulates that the city may enter into a development agreement with the owner, requiring removal or demolition of structures or improvements to prepare the property for redevelopment (§38.22.180.D).

dinance. These provisions exempt certain preexisting conditions from the current regulations within a particular geographical area of the jurisdiction. Grandfathered provisions might be the existing site's setbacks, open space, parking, lot coverage, or other standards that if left in place could make the site more competitive for redevelopment (Chilton 2004).

Flex zoning. Flex zoning permits a developer or building owner to change the use of the building (assuming current building codes are met) without undergoing a lengthy variance or approval process. This allows existing sites to better capitalize on fluctuating market demands to unanticipated retail, office, or residential space needs. This is not a zoning practice that is appropriate for every site, but it is a particularly valuable zoning tool in areas where there is a clear transition between commercial and residential uses (ICMA 2002).

Residential by-right. Allowing residences by right within existing office parks or planned unit developments (PUD), particularly older, underutilized business parks or PUDs, can promote residential development in close proximity to areas of employment, where there are frequently few housing choices and residential land is scarce (Fulton 2004).

Mixed use districts. Often the size and location of grayfields make them suitable for mixed use districts. Many grayfield shopping centers are ideal sites for transit-oriented, mixed use development since they are no longer suitable for regional retail. Districts that permit new housing, boutique retail, office, services, and public space can create an environment that promotes activity throughout the entire day and week (CNU et al. 2001).

Avoiding grayfields via big box standards. To reduce the potential for future grayfields, many communities have adopted size limits for big box stores. In addition, some communities require posting of demolition bonds when large retail centers are built. If, in the future, the buildings are vacated the bonds are used to demolish the structures. Some communities have also established enhanced minimum building design standards that require large-format retail developers to use architectural styles that facilitate reuse (ILSR 2009).

Other Solutions

Redevelopment of grayfield sites is much more likely when the planning staff has the appropriate skill set to facilitate the process. Staff should monitor retail trends and maintain vacant building databases, be retail knowledgeable, and be ready to assist small business owners with creating business plans for redeveloping their property. Some grayfield property owners are well funded

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Thornton Place in Seattle combines shops, offices, and residences on a site formerly used as surface parking for Northgate Mall.

and have a high degree of expertise. However, many grayfield property owners need strong support from the governmental jurisdiction if redevelopment is to occur. By creating clear concepts through prototype designs, and by providing clear examples of what is considered appropriate or desirable for their area, local government can shape the projects that developers propose and have them happen more quickly (ICMA 2002).

If a local government perceives that financing is a barrier to developing mixed use buildings, it can provide support by offering credit assurance, equity investment in the project (via public ownership of the land with lease back for private development), or low-interest second loans to the developers who are pioneering this type of development. Localities can also work with private developers, foundations, and pension funds to identify new sources of financing for mixed use redevelopment projects (ICMA 2002).

To further assist in the redevelopment process, jurisdictions often use tax increment financing (TIF) and business improvement districts (BIDs). TIF uses future increases in ad valorem taxes (and sometimes sales taxes) to make public infrastructure improvements within a redevelopment area. BIDs are self-imposed assessments within an area to fund a variety of services such as street cleaning, security, and marketing initiatives.

CONCLUSION

Few grayfield projects that cross a planner's desk for review and approval will be perfect in every way. But to be successful, staff should not let striving for *perfect* become the enemy of *good* redevelopment happening within their community. As we have discussed, there are many development tools that if used proactively can make underutilized and often blighted areas become vibrant parts of a community. The solution is simple: Strive to get to "yes" by adopting an attitude of "how can we make this happen in our community."

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Hormel's Spam Museum is housed in a former Kmart building in Austin, Minnesota.

Cover: The first phase of the redeveloped Mosaic District in Fairfax County, Virginia, opened in late 2012. © EDENS; design concept by Lisa Barton

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DOES YOUR ZONING PROMOTE GRAYFIELD REDEVELOPMENT?

6