Making a Great Place:
Putting Parcelization into Perspective

Background

Over the years, residents and business owners around the region have worked to achieve community visions in their downtowns, main streets, and employment areas – jobs, housing choices, walkability, local shopping, access to nature, and cultural and recreational opportunities. There have been successes. But in some cases, change has been slower than expected or desired. What is it that is preventing these places from fully living up to community visions? Often-cited challenges include restrictive zoning, a lack of pedestrian facilities, complicated permitting processes, inadequate infrastructure, high development fees, availability and cost of parking, brownfields, high construction costs, difficulties with financing, neighborhood opposition, and fragmented property ownership. Metro’s new report on parcelization, completed by ECONorthwest, explores this last challenge – fragmented property ownership, or parcelization. The report seeks to describe:

- The extent to which parcelization is responsible for impeding the investment and activity that communities wish to see in their downtowns, main streets, and employment areas
- Parcelization in the context of other development challenges
- Best practices for addressing parcelization

What is parcelization?

The division of larger properties into smaller ownerships can be an indication that urbanization is occurring. Guided by minimum lot sizes found in plans, parcelization is usually a desired process in downtowns and main streets. It means that there are location opportunities for a variety of businesses and residences. Small parcels can fill an important niche in the urban fabric, but can become a challenge when individual ownerships are too small to accommodate desired types of development.

A case study approach

To shed some light on the extent of complications caused by parcelization, a case study approach was used. Ten illustrative case study locations were selected based on a variety of factors, including:

- Local jurisdiction interest in being included in the study

- Clear local and regional goals for development/redevelopment
- Existence of other efforts, plans, or public investments
- Initial, informal determination that parcelization may be a challenge in the area
- A variety of urban forms, including industrial and employment areas, main streets, and downtowns
- A variety of geographic locations
- A variety of market conditions

The case studies relied on a blend of quantitative and qualitative analyses to put parcelization into context. The study also incorporated the perspective of people who actually make development decisions – developers. Parcelization is a problem when it is a factor that dissuades developers from building what is envisioned in local plans. Because of their knowledge of local conditions, planning staff from the case study jurisdictions were also surveyed.

Findings

The case studies showed tremendous variety in the potential impact of parcelization on development. Some general findings emerged, however.

Of the many obstacles to development, parcelization probably is not the most important in most cases.

- In many cases, issues related to zoning, entitlements, and to the quality and cost of infrastructure will be much more important than parcelization.
- About half of the case-study areas lacked the infrastructure necessary to accommodate the type of development described in local plans.
- A lack of sense of place can be a barrier to development since it inhibits demand.
- Minimum parking ratios and building height limits influence development feasibility. Developers pointed out that in some cases the allowed intensity was too low for development to be feasible.
- The burst of the housing bubble in 2008 and the accompanying slow economy create development challenges for each of the case-study areas—ones that local government has no control over.
- This study did not focus on large industrial sites (25 plus net buildable acres). As documented in a separate study, the Regional Industrial Site Readiness project, parcelization is a primary challenge to providing large, development-ready industrial sites.

Almost all the case-study areas have higher degrees of parcelization than the average for the entire region:

- This result is expected since the case-study areas were chosen, in part, because they are urban areas where smaller parcels and more land owners are the norm.
- Parcel shape as well as size can be an obstacle. Narrow or irregularly-shaped parcels can increase construction costs to the degree that development does not occur.

Land availability is a potential development obstacle in all case-study areas:

- The development challenges most cited by developers were availability of sites and the presence of brownfields. Roughly half of case-study areas have development constraints related to brownfields and floodplains. Metro has recently concluded a separate study that examines the scope of brownfield challenges in the region.
- Expressed as a share of all acres, there is less vacant land in the case study areas than the regional average. This reflects the fact that the case study areas are urbanized downtowns, main streets, and employment areas.
- Developers indicated that they do not necessarily look to vacant sites as their first choice – developers look for desirable locations (which are often already developed) with public and private amenities such as restaurants, transit, and parks. Within those locations, acquisition of specific sites can be challenging.
- Owners that have property that is fully paid off and achieving stable rents will be much more reluctant to incur risk and redevelop, regardless of whether the use is compatible with local (or regional) planning goals.

Best practices for local jurisdictions

To the extent that parcelization is a development problem, it is best addressed by local governments and development authorities. Local governments should identify the sites they would like to see develop soon and in a specific way, evaluate the extent of parcelization, and decide what level of public effort to put into either reducing parcelization or offsetting the costs it creates. Public policies that can address the problems of parcelization fall into one of three categories, described below. These options may not be appropriate in all instances.

1. **Prevent future parcelization from occurring where larger-scale development is desired:**

Trying to assemble land later after it has been parcelized may be harder than preventing future parcelization. If a jurisdiction wants larger-scale development, it could increase the minimum allowable parcel size. The dilemma is that the activity levels desired in downtowns and main streets are usually (but not always) achieved or at least accompanied by the creation of more and smaller parcels.

2. **Reduce parcelization that has already occurred by assembling land:**

Reports on land assembly reviewed as part of this research suggest that best practices include:

- Establishing narrow, well-defined development goals.
- Maintaining a robust parcel information system.
- Developing flexible, diverse funding sources for any entity created for managing and redeveloping assembled parcels.
- Using option agreements that are only exercised when all properties targeted for assembly are under contract.

Most of those recommendations are general and common sense. To go deeper, ECONorthwest interviewed developers with experience with land assembly about both issues and best practices for resolving them, <u>from the private-sector perspective</u>:

- **Streamline the process.** The longer it takes it assemble a site, the riskier the deal becomes: one or more owners are more likely to hold onto full interest in their property, developer staff costs accumulate, and lenders lose patience. A solution for developers is to have the public sector do some, most, or all of the work. For example, urban renewal districts often assemble land and then offer sites for development.
- **Align terms when closing multiple parcels for assembly.** All parcels should be closed as close together as possible; any parcel left open for negotiation is a liability.
- **Keep the deal simple.** Simplicity means assembling as few parcels as possible, and dealing with as few owners as possible.
- **Take full control of parcels for assembly.** It is probably easier and less risky in most cases to gain full control of parcels from the outset and not form partnership arrangements. Institutional lenders are more willing to lend to a developer who can show the ability to gain full control of all assembled parcels.
- **Be careful about entering into master planning arrangements.** Master planning can, for instance, obligate a developer to start development phases on a rigid schedule. This can be risky if the market for new residential or mixed-use development softens.
- **Expect landowners to negotiate a price well above the appraised amount.** Since 2008, property values have diminished but asking prices may have remained static. In partnership arrangements, this means that land contributions from existing owners are worth less, and more equity is required to secure lending.
- **Consider other ways to assemble land besides initial outright purchase.** Full parcel acquisition can be too expensive a proposition for both private and public entities. A less expensive alternative involves optioning land (e.g., to buy the property at some later date at some agreed upon price) or land swapping.

3. **Reduce the problems that parcelization creates for development:**

Land assembly can be costly. If local jurisdictions do not take steps to reduce the *amount* of parcelization by any of the methods described above, there are things they can do to reduce the obstacle that parcelization poses for the kind of development desired. Ultimately, developers must make a return on investment. The better the financial pro-forma looks, the more room a developer has to incur the costs of negotiating with multiple owners to find an arrangement that allows a site of multiple parcels to get clear for development. There are a number of actions that local jurisdictions can take that may improve the financial feasibility of developments. Each of these options has potential tradeoffs that must be weighed.

- **Actions that increase development revenues** include, for instance, pre-leasing space for government operations, helping to secure federal assistance for renters with low incomes, providing off-site amenities that enhance market demand in the district, or allowing greater building heights.

- **Actions that reduce development risks or costs** include, for instance, reduced development fees, tax exemptions, or reduced parking requirements.

Regional role

Efforts to address parcelization are best undertaken at the local level. This study's findings and suggestions can be incorporated into future local and regional planning efforts and implementation activities. Metro's support for the Community Investment Initiative's Development-Ready Communities and Regional Investment Enterprise programs may also lead to enhanced tools to address the challenges of parcelization.

The full report and technical appendices may be found on Metro's website:

http://www.oregonmetro.gov/index.cfm/go/by.web/id=41879