Retail

Retail Space

Economic Crisis Hits Urban Gentrification; Washington, D.C., Riverfront Project Stalled

The recession and frozen credit markets are making it much more difficult for developers to get loans and downright risky for either commercial or residential tenants to commit to leasing agreements in gentrifying urban neighborhoods, according to Michael Stevens, executive director of the Capitol Riverfront Business Improvement District (BID).

The uncertain job market hinders potential residents who want to buy into these new, unfinished urban villages. Even today's low-interest mortgages do not entice home or condo purchases.

Few gentrification projects are as ambitious as the area surrounding Washington, D.C.'s Nationals Park, the District's first designated baseball stadium since the days of the Washington Senators. Under the name ''Capital Riverfront,'' a coalition of 30 development companies are building a ''city within a city,'' according to Stevens. The area is to be a ''small hospitality district in and of itself.'' Stevens told BNA that plans are in place for ''15 million square feet of office, 100,000 daytime employees, 9,100 residential units, 17,000 full time residents, 1 million square feet of destination shopping, restaurants, entertainment and night clubs, and 1,200 hotel rooms. There will be four new parks owned by the District of Columbia, the city's first new parks in 60 years. [It will be] a transit-oriented neighborhood community, very much a walkable place . . . with access to the river that people haven't had for years and years. It's just a 15-minute walk to the Capitol Building.'' So far, 25 percent of that has been achieved.

Few Surrounding Businesses. There are ''very few [functioning businesses] immediately surrounding the ballpark. We haven't realized the neighborhood support . . . like we'd hoped, and the economic downturn hasn't helped.''

The original projections predicted that the community would be finished in 15 years, but Stevens is pushing that goal back. ''It will take at least 20 years, with the current economic climate.''

In August 2008, in the same neighborhood, Washington, D.C.—based Monument Realty was forced to back out of an art school/residential project due to the collapse of Lehman Brothers, its equity partner. From their plans to construct apartments and even a hotel, work is going on only on an underground parking garage, while the realtor searches for another source of financing.

Another complication is that the emerging neighborhoods were in many cases counting on their own success to finance their underpinnings. In Washington, D.C., realtor William C. Smith & Co. planned a major office building near the ballpark, due for completion in 2008. But they were unable to attract an anchor tenant, so the developer is using the land as a parking lot.

The tax revenue from the office building was slated to help the District government finance $24 million worth of nearby infrastructure, mainly sewers and sidewalks, which would have made occupancy at least minimally viable. No construction permits will—or can—be signed without it.

Eighty Percent Pre-leased. According to Michael Stevens, the economic crisis has made many banks more demanding toward borrowers, and lending standards have been raised to a level almost unimaginable a year ago. Properties now have to be extensively preleased, as much as 80 percent. ''No doubt we'll see a slowdown,'' Stevens said. ''Access to credit is very limited and expensive. Since credit seized up, in September 2008, most banks and lending institutions are saying that you have to bring a much higher ratio of equity to the table. They're just not willing to invest in speculative buildings anymore. I don't blame them.''

The ballpark itself was financed by the District of Columbia with bonds, Stevens said. ''There was a financial package that led to bonds being issued and [the city] backed the bonds. They are on the hook for them and have to pay them back.

Special Assessment for Infrastructure. ''We had a water/sewage special assessment to fix infrastructure both north and south of the ballpark, and the city made a formula to determine how much your assessment would be on a yearly basis. The District government covered all the publicly held properties within that district, so while the private property owners are paying 53 percent of that $15.5 million bond issue or water and sewer upgrades, the District government was covering 47 percent of it. That was a nice partnership to develop parcels around the ballpark, and could be sold to private concerns and developed. In the long run it helps enhance the tax base of the city.''

Stevens remains focused on the long view, which is an optimistic one.

''There's a long way to go, but you think that an area that's been overlooked for 50 to 60 years [is] finally coming back to life . . . it's kind of interesting to see.''

By Kevin Lambert

The Website for BID is www.capitolriverfront.org.

Leases

Landlord's Reliance on Verbal Assurances Unreasonable Without Signed Lease

The Ohio Court of Appeals held Dec. 9 that a landlord could not have reasonably relied on a prospective tenant's verbal assurances that it would lease space when each letter of intent between the parties ex-