

SEEING SMALL

By Jim Heid and
Samantha Beckerman

Main Street was founded upon the principle that sustainable, comprehensive transformation of a downtown or commercial district doesn't happen overnight or with one "big fix." Small-scale development projects and incremental improvements are the key to creating vibrant local economies and distinctive places that will thrive well into the future.

Jim Heid, founder of UrbanGreen, and Consultant Samantha Beckerman dig into what happens when we think *Small* and why this development approach continues to gain momentum as the best solution for achieving economically resilient communities in the 21st century.





Over the past few decades, planners, civic leaders, and anyone interested in great places have come to recognize—or rediscover—the great potential in urban centers and walkable communities. With a tailwind of positive change driven by demographics, walkable downtowns have re-emerged as the “place of choice” for generations young and old. Every day we read how regional malls atrophy, while we witness Main Streets and neighborhood commercial districts regain their footing through a renewed sense of purpose, hipness, and place.

As institutional investors continue to favor gateway cities—relying on “safer returns” driven by millennial tech worker affluence and demand generated by the influx of wealthy immigrants—creative developers and investors are quietly setting the stage for long-term returns by focusing on small-scale development projects in mid-size cities, once soulless suburban strips, and rural communities. Eschewing the big formulas of institutional capital, pioneers working in these alternative markets are bringing creativity, a new sense of discovery, and celebrating the unique sense of place that happens when we embrace *Small*.

Jim Heid, FASLA, is a small-scale developer and real estate advisor, whose focus is the creation of developments that provide a positive contribution to their environment, region, and residents. In 2000, he founded **UrbanGreen** to advise established development companies, governments and legacy NGO's that seek better development models. He is a frequent speaker at national conferences and local programs focused on sustainable development and value of small-scale development as a tool for creating more vibrant, economically resilient communities. He has taken ULI's Small Scale Developer Forum to over eleven cities in the past five years. This article is excerpted from his forthcoming book 'Building Small: A Toolkit for Real Estate Entrepreneurs, Civic Leaders and Great Communities' to be published in 2018. He can be reached at jim@urbangreen.net.

.....

Samantha Beckerman is a Consultant based in Berkeley, California working on projects related to small-scale real estate development and affordable housing. Sam is a graduate of UC Berkeley's Master of City Planning program where she focused her coursework on the intersection of equitable development, land use, and urban sustainability. Before graduate school, Sam worked for four years at the Natural Resources Defense Council in Washington, D.C. managing community development, transportation, and green infrastructure projects in their Urban Solutions program. Sam is a ULI Debra Stein Fellow and sits on ULI's Public Private Partnership product council. She can be reached at samantha.beckerman8@gmail.com.





Thanks to the advocacy efforts of H Street Main Street and countless community leaders, much of the older and historic architecture of the H Street NE Main Street corridor of Washington, D.C., was retained despite demolition threats. Many of these buildings are now occupied by unique, locally owned businesses that have created a vibrant environment for residents and visitors alike.

Credit: H Street Main Street

WHY IS SMALL IMPORTANT?

As Jane Jacobs's seminal book *The Death and Life of Great American Cities* approached its 50th anniversary, her prescient work was gaining new gravitas—both for its meaning and its reality. Written in the 1960s, her thesis stated that fine-grained, small-scale development was better than big, monolithic development. Her eloquent, but intuitive, response emerged from what she witnessed in her daily West Village life in New York City. In 2014, the release of “Older, Smaller, Better”—the National Trust for Historic Preservation's Preservation Green Lab's (PGL) groundbreaking research—leveraged new technology and data to provide analytical support to what Jacobs deeply understood to be true.

Jacobs's thesis and PGL's “Older, Smaller, Better” showed that neighborhoods containing a mix of older, smaller buildings of diverse age support greater levels of positive economic and social activity than areas dominated by newer, larger buildings. These types of neighborhoods are more walkable, they attract a more diverse mix of residents, and they support smaller businesses, local businesses, and jobs in the creative economy at higher rates. For example, there are 36.8 percent more jobs per commercial square foot in

areas of Seattle composed of older, smaller, more age-diverse buildings than in areas with mostly newer, larger buildings.

But you don't have to do the kind of research PGL did to see this fact play out. It comes as no surprise to Main Streeters from both urban and rural areas that in most any city, wealth—either baby boomer-saved or millennial tech-fueled—is homing in on neighborhoods that reflect the basic tenets of *Small*, while increasing value and vitality. For instance, between 2015 and 2016, the median sales price of a home in the H Street NE Main Street corridor of Washington, D.C., went up 8.6 percent. The corridor is known for its mostly two-to three-story late 19th century row houses and commercial buildings, new streetcar line, and vibrant restaurant and bar scene.

BUT WHAT IS SMALL?

Small is not about the size of the deal or total square footage. *Small* is about attitude, creativity, and a commitment to making a positive impact. It tends to rely more on adaptive use than building new, but it can come in many forms.

Big, for the purpose of this discussion, is characterized by whole- or multi-block projects that use institutional funding sources, and are organized to create rates of return that have become an industry standard—in an industry that is anything but standard. Big projects result from a multi-year, large-scale planning process—often excruciating and expensive because of their scale and the requirements of archaic approval processes that must address wary neighborhoods seeking highly prescribed outcomes. This creates a high degree of predictability and certainty, but lacks the ability and agility for projects to adapt and evolve.

Small, on the other hand, is the type of project with which Main Street leaders are most familiar. *Small* is a locally-driven and contextually sensitive approach to building and re-building communities. For this reason, there is no one-size-fits-all approach, and no single template. *Small* leverages the DNA of a community's existing fabric, refining and polishing great, and not-so-great, existing buildings. *Small* relies on entrepreneurial attitudes and bootstrap funding. It creates places that people want to be, by carefully curating the tenant mix rather than adopting conventional leasing formulas that homogenize downtowns in the pursuit of efficiency and credit tenants. *Small* seeks—and generates—holistic returns, generating long-term positive economic results for sponsors, investors, and tenants, while leading to positive community transformation.

WHO IS DOING *SMALL*?

Developers focused on *Small* are not your stereotypical attorney, or MBA-turned-real estate developer. The genre of “*Small* developer” comes from the ranks of architects, community activists, and tech emigres, possessing the intellectual prowess and discipline that it takes to build in today's complicated regulatory and financial environment. But they also possess a creative moxie that belies the conventional developer. They are all people who see a higher purpose for what they are doing—focus on real estate not as the end, but as a means to the end that is all about great placemaking. And their growing financial success demonstrates how we are entering a new era where the premium for authentic places is no longer just an academic dream.

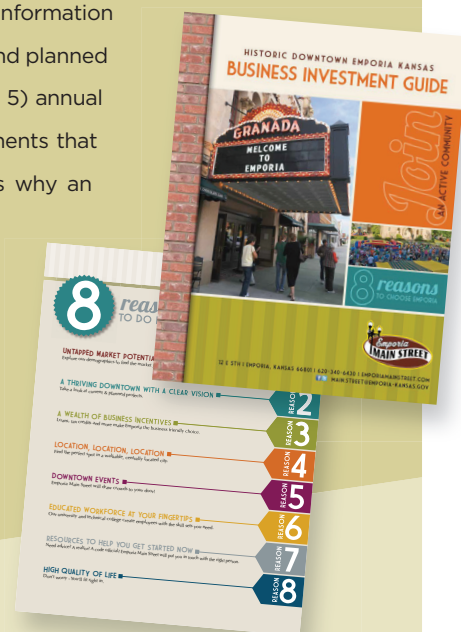
Small is occurring at scale across the country thanks to the support and advocacy of the Main Street America Network, as well as other non-profit groups in the commercial district revitalization field. For example, Midtown Detroit, Inc. (MDI) is a nonprofit planning and development organization focused on the revitalization of the Midtown Detroit neighborhood. Working in collaboration with community stakeholders, MDI is engaged in over 30 initiatives around district planning, marketing, real estate, and economic development. The Inn on Ferry Street, a 40-room boutique hotel, exemplifies MDI's focus on placemaking and neighborhood reactivation. In partnership with the Detroit Institute of Arts, MDI converted four historic homes and two carriage houses into The Inn, leveraging \$8.5 million from over 24 sources of financing. MDI also recently worked to change the zoning in Midtown to encourage walkability, more small-scale production uses, and provide parking relief. This change in zoning will be well supported by the area's walkable geography. Beyond brick and mortar, MDI supports local events such as DLECTRICITY, a nighttime arts festival that brings awareness to the historic architecture of Midtown through art, lighting design, video, and performance, which in turn increases the value of real estate within the district.

HOW TO ATTRACT SMALL-SCALE DEVELOPERS AND INVESTORS

Small-scale developers, entrepreneurs, and businesses have many options when it comes to where they choose to invest. If they can't easily find a compelling reason to locate in a community, they'll quickly move on to the next. To stand out among your competition, follow Emporia Main Street's lead and create a Business Investment Guide that lays out why your community is a smart place to locate.

Created in collaboration with local design firm IM Design Group and local development and consulting group Placemakers, LLC, Emporia Main Street's eight-section guide covers the top categories of information most requested by developers and entrepreneurs: 1) market analysis; 2) list of completed and planned projects; 3) available monetary and non-monetary incentives; 4) detailed downtown map; 5) annual events calendar; 6) qualified workforce availability; 7) local assistance points; and 8) elements that contribute to a high quality of life. Each of these sections serve as compelling reasons why an investor should choose the community.

At 23 pages in length, this booklet provides potential developers and businesses with a substantial, but easily digestible snapshot of the community, while also positioning Emporia Main Street as a knowledgeable partner and valuable resource. Visit emporiainmainstreet.com/business-resources/business-recruitment/ to view Emporia's guide. A customizable digital guide is available for purchase at imdesigngroup.com/downloads/business-investment-guide/.



SMALL MATTERS

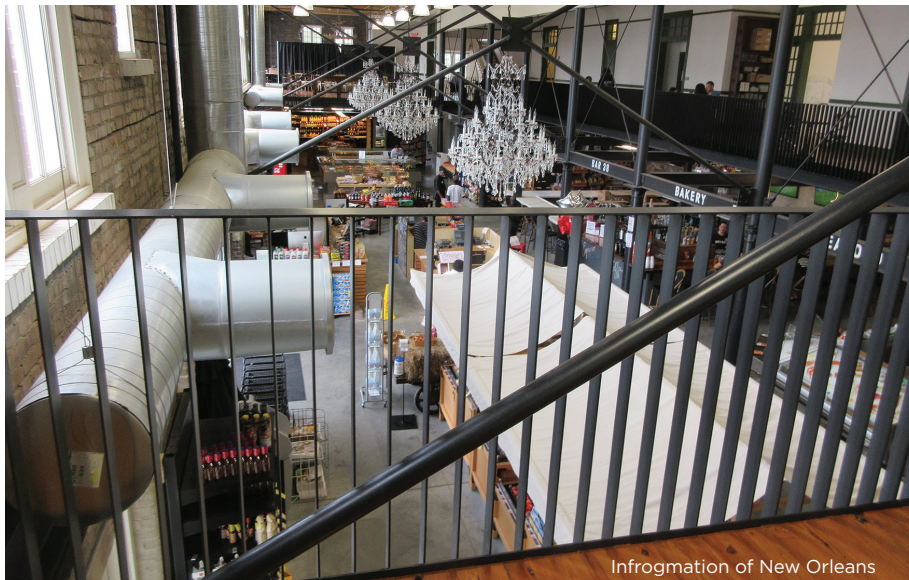
Local advocates, like those in the Main Street movement, innately know why *Small* matters. In an era where trend watchers and prognosticators attempt to predict what our collective future will look like on a daily basis, we know the only constant will be continual change. Increased fragmentation of markets, the ability to find whatever we want with one click, an expanding shared economy, and the rapid movement of global investment means a personal connection with the community in which we choose to live is ever more important.

We know that all this change makes people want the constancy of something comfortable, personal and maybe even a bit routine more than ever before. Our community members want to connect with those who work at their local pizza shop or bakery, and enjoy the chance encounter of speaking with someone we know, or someone new. We understand if places are the same in every city we go to, there is little to nothing special about where we live. But when those places are one-of-a-kind—steeped in local culture, grown from the fabric of our former blocks, imbued with local art, operated by local business “makers” supporting our community and creating connections—we all benefit.

“Mom and pops” are even gaining the attention of the finance and real estate industries, who traditionally saw this type of development as a credit risk. Following the Great Recession of 2008, many banks and communities learned that economic resilience—not just sales tax—is a crucial factor in how we should think about downtown revitalization strategies. As Kimber Lanning, of Local First Arizona, shows in her work supporting locally owned, independent businesses, spending money locally reaps substantial economic benefit for communities. Buying locally and supporting home-grown businesses keeps money in the local economy, fosters community pride, creates jobs, diversifies the economic base, and supports healthier communities.



Increasingly, our social interactions don't occur over our dinner table but at the local restaurant or coffee shop.



The Oretha Castle Haley Boulevard Merchants & Business Association, a 2017 Great American Main Street Award winner, has overseen the redevelopment of a number of catalytic small-scale development projects. The former Myrtle Banks school sat empty for years until its transformation into the new Dryades Public Market. The \$17 million renovation was financed through a combination of public and private sources, including

historic and new market tax credits, funding from the New Orleans Redevelopment Authority, a loan from the City of New Orleans, and private grant funding. Throughout the development process and launch of the market, the developer and local leadership remained committed to the principal of place, ensuring that the local community was reflected in the kinds of products and services available at the market. And, while the market is only one component of Oretha Castle Haley Boulevard's overall transformation, it has provided a much-needed jolt of energy into the district, helping to generate additional buzz about this neighborhood in transition.

Small Scale Developer Forum by the Urban Land Institute

Lessons Learned

After years of focus on large, complex mixed-use developments that leveraged global capital, a countervailing view to see what was happening at the other end of the spectrum led to the 2012 launch of the *Small Scale Developer Forum* as part of the Urban Land Institute's Real Estate Entrepreneur's program. The two-day program combines neighborhood tours, project case studies, and intimate conversations with developers and regulators on what is *Small*, and how it was creating value in their communities.

Since the first forum in San Francisco, 11 cities have been toured. Starting with mature cities (San Francisco, Washington, D.C., and Seattle), the program moved to emerging urban and suburban centers (Austin, Phoenix, Denver, Miami, and Portland) and then Rust Belt cities (Pittsburgh and Detroit). What each tour witnessed was both remarkably unique to their locale, and incredibly consistent in their lessons. These included:

Small and adaptive reuse go hand-in-hand. The creative and curated nature of *Small* allows heretofore “unusable” buildings to be repurposed into unique places with entirely new formats that

bring unique focus to neighborhoods and add new value. Seen in the re-purposed single-family houses and shipping containers that make up Rainy Street in Austin's outdoor “barbeque and bar” vibe, to arterial strip centers turned into dynamic neighborhoods in Phoenix or Denver. These examples prove it doesn't require what has traditionally been considered great building stock to create great places. The creativity of design and material applications in today's re-generation movement are unmatched—and often it is the least likely buildings that become the most loved places.

Small as a Phase 0.0 strategy.

Incremental, temporal approaches to *Small* define the essence of a place and let the neighborhood evolve organically. *Small* development is about NOT master planning, instead it's about letting places evolve in a more organic, incremental fashion. Today “grit” replaces greenfield as the raw material of neighborhood building. And often times, a Phase 0.0 is the best strategy for creating place and testing markets before making a big investment in bricks and mortar. In Louisville, Kentucky, across from the successful 21c Museum Hotel, a vacant lot

behind the propped-up façade of a lonely storefront was used as the venue for pop-up events to drive foot traffic, call attention to the block, and add an “edge” to the redeveloping area.

Curating vs. leasing. “Big” creates real estate spaces to lease. *Small* curates tenants to foster synergy and place. Often curating requires the developer to go into business with the tenant—to make sure they succeed and keep everyone's interests aligned. This means *Small* cannot be the type of real estate where once the lease is signed the asset is turned over to a third-party property manager. *Small* developers understand the principle that value will accrue over time as the place matures—which means they must work hard to ensure tenants achieve vitality and synergy with the neighborhood, as both evolve together. Ankeny Alley in Portland is a public street that was decommissioned by the City, allowing the adjoining businesses to co-op the public space with alfresco dining and a light ceiling, reinforcing the uniqueness of place and creating a positive public private partnership. An informal business association paid for improvements and the City provided grants for building upgrades. This unique public private partnership reinforces the concept of ‘curating’ both place and tenants, in order to create a higher level of experience and business success.

Art as an economic development strategy. Public art used to be viewed as a “nice” element in a district, but not something that was connected to the local economy. Today’s *Small* developers know better. They recognize art as a strategy for generating value, and creating the kind of vibe needed to generate a buzzworthy place. Public art can be part of the Phase 0.0 strategy or integrated consciously throughout a development project to help create a distinct sense of place.

***Small* is not David to Big’s Goliath.** Small development can be a complementary development strategy to the sometimes necessity of large scale, catalytic investments. A 250-unit apartment building may sometimes be necessary to help create the density needed to energize a moribund neighborhood, but it is the incremental, fine-grained commercial uses that ensure it is a unique place that will attract and retain residents. Some “big” developers are seeing this big/small partnership as a valuable strategy for gaining neighborhood approvals and creating real places that will increase in value over the long term. They are gaining building efficiencies while designing and modeling projects on a small scale.

IT’S NOT EASY BEING *SMALL*

For all its promise and success, barriers to scaling *Small* development loom large. Two primary impediments persist:

Regulations. In most cities, the process required to entitle projects has become increasingly arduous. The cost of approvals—both the level of documentation and time to fulfill submission requirements—make small-scale development infeasible in most locales, or lead to big development as the only possible solution. There is a need to right-size regulations and streamline approvals for smaller projects. Jurisdictions should examine the costs created by archaic code requirements that are not relevant to, or create excessive cost burdens for achieving *Small*. Examples include onerous parking requirements, incompatible land uses, outdated zoning codes, and burdensome bathroom and accessibility interpretations. Furthermore, a cultural shift is necessary to ensure that *Small* projects are supported and incentivized, and that permitting and fees make small-scale development more attractive, not more challenging. This cultural shift won’t happen without leadership that spreads the message of why *Small* is valuable and how *Small* can support a better quality of life for entire communities.

Leadership for making *Small* happen can come from the top down, or bottom up. But it ultimately relies on champions explaining how small-scale development is not just about building places, it is a critical component of any community’s economic development strategy. This may include leaders asking planning staff to review codes, using the lens of small-scale developers and small-scale sites. Do parking requirements—form and quantity—make projects infeasible? How is accessibility addressed and what are the triggers for requiring a full ADA upgrade? Can buildings be adaptively reused or are there hidden cost triggers that make anything but tear down and build new—requiring bigger buildings—the only option? Staff should review fee minimums for *Small* projects—sometimes there is a “floor” for fees, meaning these projects will pay an outsized fee per square foot compared to bigger projects, just to be reviewed or permitted.

Finally, leadership and policies need to align to ensure everyone from elected officials through staff recognize that *Small* is an important strategy for long-term community building. In departments that rely on “cost recovery” approaches to funding, new ground-up projects get all the attention because the fees generated are greater and the work effort is usually less. *Small* projects need recognition as contributing a different kind of value to the community, and fees and attitudes should be adjusted accordingly.



It's up to us spread the message that small-scale development and adaptive reuse is a critical component of any community's economic development strategy.

Credit: Bastrop Main Street

Capital. Traditional sources of funding for real estate (banks, life insurance, and pension funds) don't understand projects that do not fit their standard underwriting classifications. While *Small* and creative projects are exciting concepts to those of us focused on building place, they are seen as risky and unproven to those who are focused on minimizing capital risk.

Perceived risk aside, *Small* also requires the same—or more—due diligence and fund management as much larger real estate opportunities. As a result, the success of *Small* in so many of the projects witnessed has had to come from unconventional sources. Fortunately, more and more people see the value of *Small* and want to contribute and create a positive impact in their community. For many high-net-worth individuals who made their wealth in intangible businesses, helping to “build something real” can be very seductive. There is a tangible, personally fulfilling aspect to visiting the local restaurant, bookstore, or indie movie theater one helped build. However, unconventional funding is not dependent on these wealthier individuals. The advent of new alternative financing mechanisms such as crowdfunding has provided a way to gather small donations for a cause or project from a wide variety of donors. This grassroots funding instrument fits in

especially well with the community-driven work exemplified by the Main Street America Network.

THE FUTURE OF *SMALL*

Big urban challenges have historically been answered by big projects. The conventional wisdom for “fixing cities” epitomized by the Robert Moses era of Urban Renewal was that megaprojects were the only answer to solving complex issues in our rapidly expanding city centers. Whether subsidized housing projects or megablock gallerias, bigger was always better. As a result, our regulations, capital markets, and planning industry grew up to support and fuel this notion, eclipsing our ability to work more surgically.

But at this point in time the neighborhoods that age the most gracefully, create the most resilient economic ecosystems, and hatch or host the most innovative talent, refute this idea. The thesis first penned over 50 years ago by Jane Jacobs—that fine-grained, small-scale development makes for more interesting places—is being born out as we find new data to collect, and new ways to holistically measure success. Going forward, the concept of *Small*, so deeply ingrained in the work of Main Street, is finally coming of age. And this is a good thing for all of us.