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Local efforts cut through recession

Some development projects moving forward in the West aren't relying on federal stimulus money

LEGAL EASE

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President Obama recently told the New York Times that one thing he has learned on the job is that there is no such thing as a "shovel ready" project. Hence, there is a long delay between stimulus budgeting and actual job creation.

Developers and those who represent them know better than anyone that local, participatory planning environmental review, rezoning, mapping, discretionary and ministerial approval – often lasts twice as long as construction. For example, a major hotel project on the Oregon Coast needed three years to secure approval, and only 18 months to be built.

The recent good news for those of us in the development industry is that more ground is being broken. After nearly two years of stagnation, capital is beginning to flow into new development and clients are building again.

New development has been paralyzed for several reasons.

First, with all of its uncertainties, new development is the riskiest form of real estate investment. Equity (and there are billions of dollars looking for better returns) stayed on the sidelines until it became clear that the U.S. and world economies were not headed for complete meltdown, and that the stabilization measures adopted at home and abroad had in fact worked.

Second, as lenders looked to sell loans for cash to stabilize balance sheets and meet reserve requirements, equity investors found they could obtain handsome returns, in the range of 15 to 20 percent per annum or better, simply by purchasing bank paper. Why invest in risky development in an uncertain market when great yields can be achieved by buying first lien debt at discounts?

Also, many sectors have been overdeveloped. In particular, with the subprime crisis forcing many out of homeownership and into rental units, the need for new housing will be below historic norms for a long time.

Plus, there is a general consensus that the U.S. is "over-stored" in retail, which is struggling with high unemployment and reduced consumer spending. Company failures and shrinkage have placed pressures on office markets, significantly reducing

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the likelihood of new development taking place on spec.

But the need for new construction remains in the right market segment and locale. Interestingly, although construction lenders have reduced loan-to-cost ratios to around 50 percent, these developments are proceeding, and not because of federal stimulus but rather because of tried and true local development tools.

For instance, in Eugene, a new 70-room boutique hotel is under construction, boosted by a city investment of $600,000, a Small Business Administration loan and credit union participation at 50 percent loan-to-cost. The project, the Inn at the Fifth, will bring needed rooms to an underserved hotel market and boost capacity for conferences.

The largest industrial project in Los Angeles County is under way by virtue of a 100 percent seller-financed land deal made by the Redevelopment Agency of the City of Irwindale to Huy Fong Foods, the maker of the popular Sriracha Rooster hot sauce. The new plant and warehouse will create 275 construction jobs and 200 permanent jobs.

Finally, Intel announced recently that it is investing up to $8 billion in microchip manufacturing plants that could create up to 1,000 permanent high-tech jobs in Arizona and Oregon. Intel has based manufacturing projects in Oregon in part because of a state tax structure that offers tax breaks worth hundreds of millions of dollars on its production equipment and exempts the company from most corporate income taxes.

These new projects are products of local, and not federal, stimulus. That is welcome news.

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