FINAL REPORT

PRINCE GEORGE'S COUNTY DEVELOPMENT 3.0

Developer Interview Report:

Strengths, Weaknesses, Opportunities, and Threats to High-Quality Development in Prince George's County

March 2017

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Executive Summary

Prince George's County is well-positioned to achieve its goal of bringing in additional high-quality development. The most important steps are already underway: positive leadership changes; a strong, logical vision; an improving reputation; and a Zoning Rewrite that can help create more understanding, more efficiency, and a better built form. The County's developer incentive efforts still have large economic hurdles to overcome given higher overall development costs, longer development timelines and lower profit margins and operating revenues for County developments. Despite these challenges, the developers interviewed are mostly bullish on the opportunities to execute high-quality development in the County. Within designated priority focus areas, the County should do what it has already done successfully on recent projects: remain an active partner that is willing to work creatively with the private sector. For development in non-priority areas within the County, steps should be taken to make the approvals process faster, simpler, and less uncertain. In this way the County can continue to make high-quality development, by County-supported developers, the norm in the County.

Developers interviewed for this report include (Please see Appendix 1 for more detail on each):

- **Berman Enterprises**
- **Bozzuto Group**
- **Dantes Partners**
- **EYA**
- **Forest City**
- **Jackson Shaw**
- **Jair Lynch Real Estate Partners**
- **Petrie Richardson Ventures**
- **Urban Atlantic**

These developers represent a broad spectrum of company sizes, development product types, and experience in the County and within the region. They were also almost uniformly complimentary on the progress in upgrading the County's development and incentives process in recent years. They also have some specific ideas and recommendations for change, and each of those recommendations were given with the dual goals of helping the County maximize the value proposition of developing in the County, and increasing the effectiveness and efficiency of the County's development process. The Zoning Rewrite will build upon all of the great progress the County has made – both the administrative and political level – to be a magnet for high-quality development and developers in the region.

Why Prince George's County Development 3.0.? We believe the qualitative insights in this Report will be very helpful as the Zoning Rewrite proceeds towards adoption and implementation. We thought that branding this next phase "Development 3.0" could be a positive and inspirational rallying cry for the implementation of the zoning update recommendations and the recommendations from this Report. Continue the progress. Continue the growth: *Prince George's County Development 3.0*.

Report Contents

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    b. **List of Developer Questions**

The interviews described in this Report provide only a snapshot of key developer insights, ideas, and recommendations shared during the interviews. Please see Appendix 2 for the survey questions asked during each interview. The Report is not intended to capture every comment made during the many hours of interviews. The interviewees were promised that their comments would be documented anonymously in order to maximize the candor and value of the thoughts shared. Accordingly, unless specifically authorized by the developer, nothing shared in the interviews will be attributed to a specific interviewee within this Report.

Introduction

The Prince George's County Planning Department ("County Planning") is shepherding a comprehensive rewrite of the County's Zoning Ordinance and Subdivision Regulations ("Zoning Rewrite"). County Planning hired zoning and land use experts Clarion Associates ("Clarion") to lead the consulting work for the Zoning Rewrite. Mosaic Urban Partners (Mosaic Urban), a DC-based real estate development and advisory services firm, is working as a subcontractor to Clarion, on various portions of the Zoning Rewrite. Mosaic Urban conducted all of the developer interviews detailed within this Report.

The goal of this Report is to provide additional qualitative insights on the strengths, weaknesses, opportunities, and challenges of developing high-quality projects in Prince George's County. These insights should help County decision makers in their review of the proposed Zoning Rewrite. Many of the qualitative insights contained herein *reflect developers' comparative thoughts* about development in Prince George's County – i.e. how does the County compare to surrounding jurisdictions in terms of development opportunities, the development and entitlement process, and the relative costs (time and money) to do business in the County.

Key Themes

Economics: Development in Prince George's County Has Comparatively High Costs and Low Revenues

One of the most consistent and important themes that emerged from the developer interviews was the value proposition of real estate development in Prince George's County compared to other counties in the DC metropolitan area. Within the region, Prince George's County is (a) one of the most expensive places to build and (b) generates lower rents than many other locations. For example, Prince George's County has the highest property tax rates in the region ($1.49 mill rate in the county; $0.85 in DC) as well as higher-than-average development fees ($14,500 within the Beltway and $25,000 outside of the beltway; $10,000 in DC). At the same time, the average residential rent is $1.95/sf, compared to $2.97/sf in DC. Please see the "Development Fees," "Average Residential Rents," and "Tax Mill Rate" charts below and on the following pages for comparisons with other local jurisdictions.

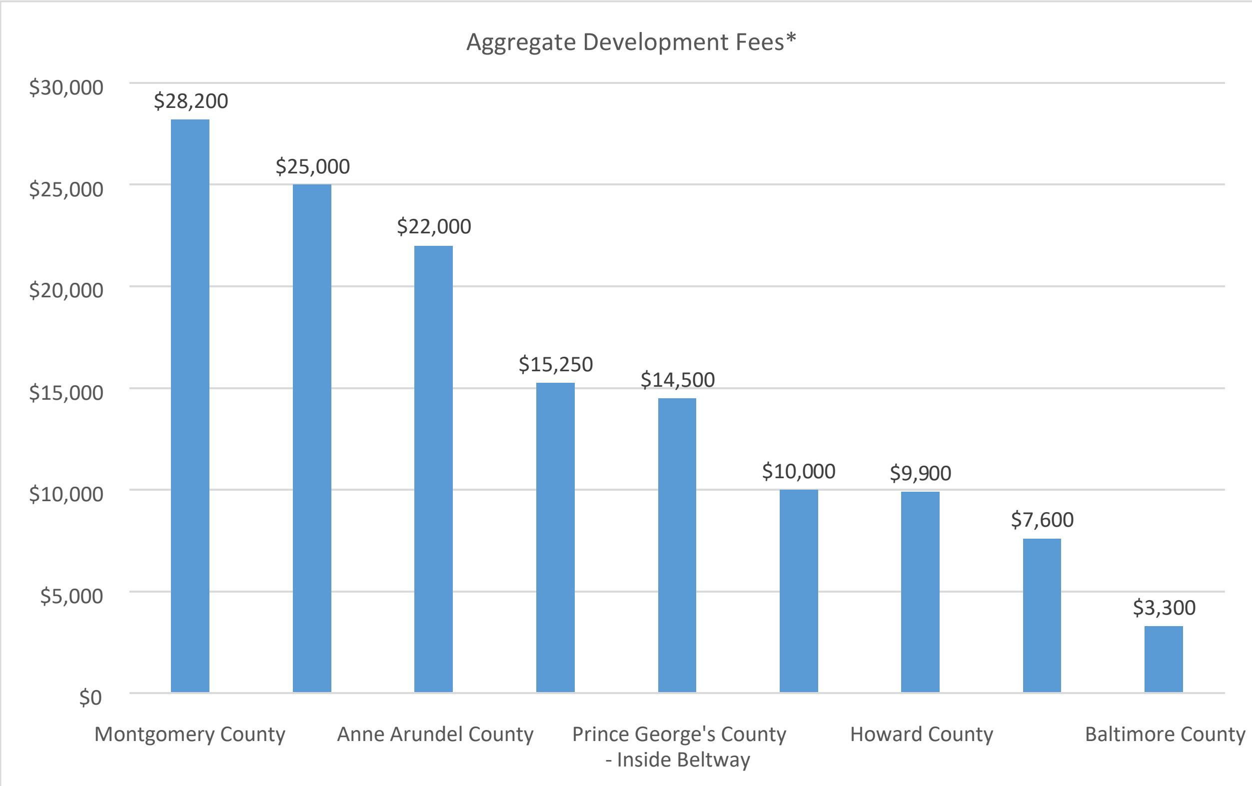
Comparison Summary (individually reflected in the charts below):

- **Higher than average aggregate Development Fees**
  - $14,500 within the Beltway and $25,000 outside of the beltway, compared to $10,000 in DC, $28,200 in Montgomery County, $15,250 in Fairfax County, $7,600 in Arlington County, and $3,300 in Baltimore County).
- **Highest property tax rates in the region**
  - $1.49 mill rate in the county as compared to $0.85 in DC, $0.89 in Montgomery County, and $1.13 in Fairfax County
- **Low rents compared to elsewhere in the region**
  - Average residential rent is $1.95/sf, compared to $2.97/sf in DC, $2.51 in Arlington County, $2.38 in Montgomery County, and $2.27 in Fairfax County. Prince George's County also has some of the lowest average office and retail rents in the DC metropolitan region as well (see charts on the following pages for more detail).

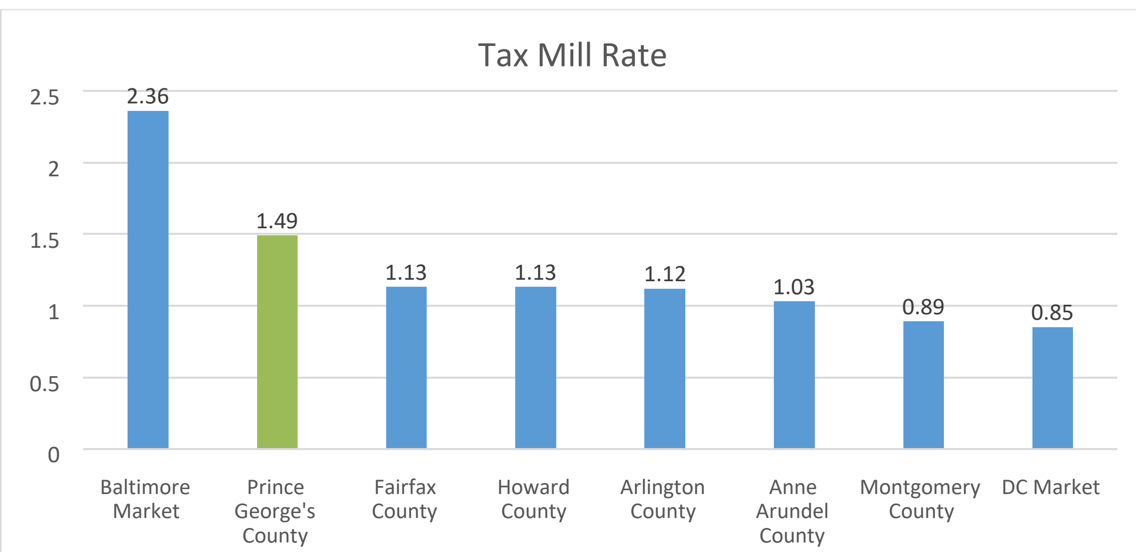
This combination of higher costs (compared to surrounding jurisdictions) coupled with relatively low rents (compared to surrounding jurisdictions) holds true in both residential and commercial real estate development. See the charts and tables on the following pages for detail on how development costs and revenues compare.

Comparative County Cost/Benefit Rankings*				
County / Market	Overall Average Rank	Mill Rate	Development Fees	Average Rent
DC Market	2.0	1	4	1
Arlington Market	2.7	4	2	2
Montgomery County	4.7	2	9	3
Baltimore Market	4.7	9	1	4
Anne Arundel	5.3	3	7	6
Fairfax County	5.7	6	6	5
Howard County	5.7	5	3	9
Prince George's – Inside Beltway	6.7	7	5	8
Prince George's – Outside Beltway	7.3	7	8	7

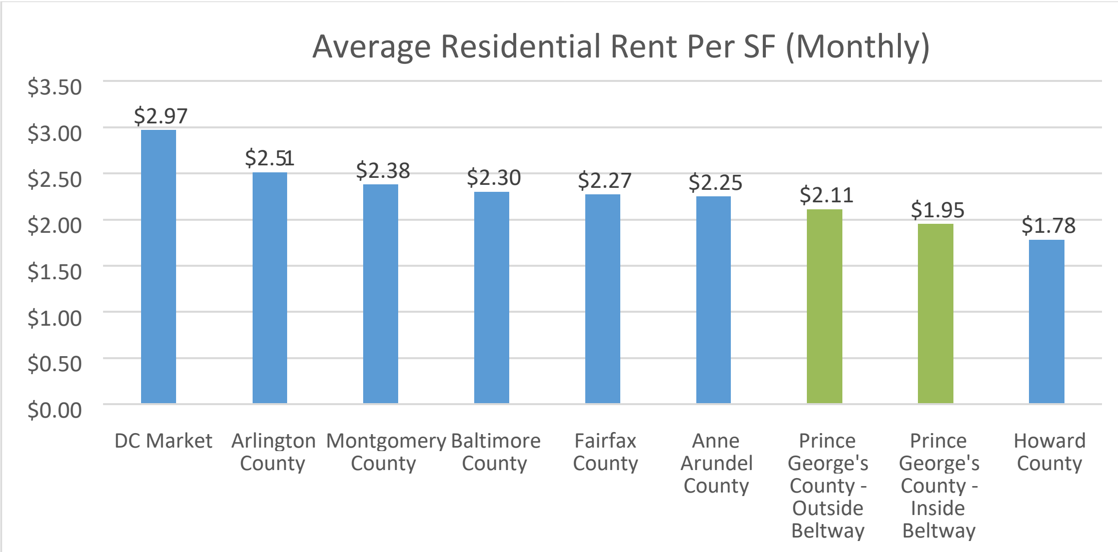
*The lower the number, the better the County/Market is ranked in that category.

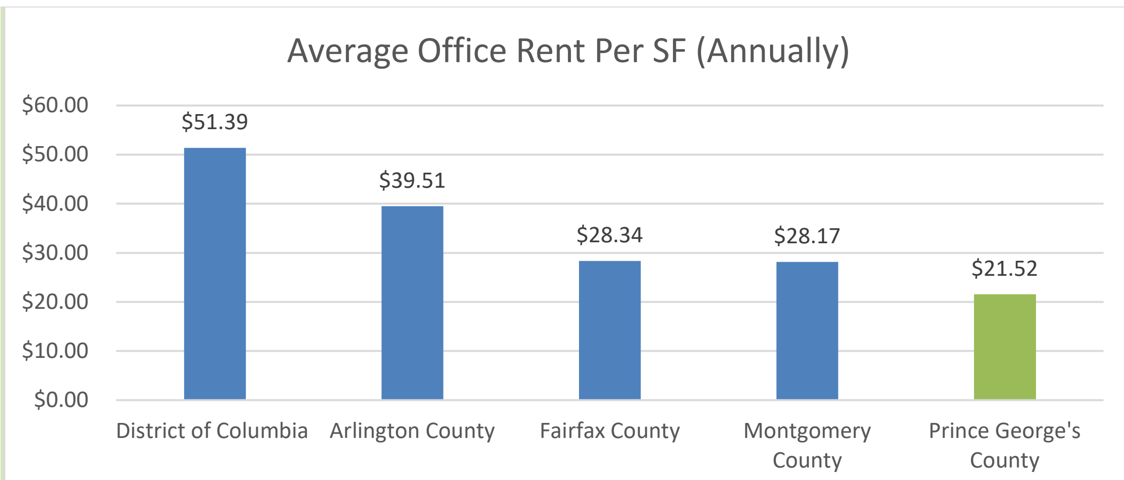


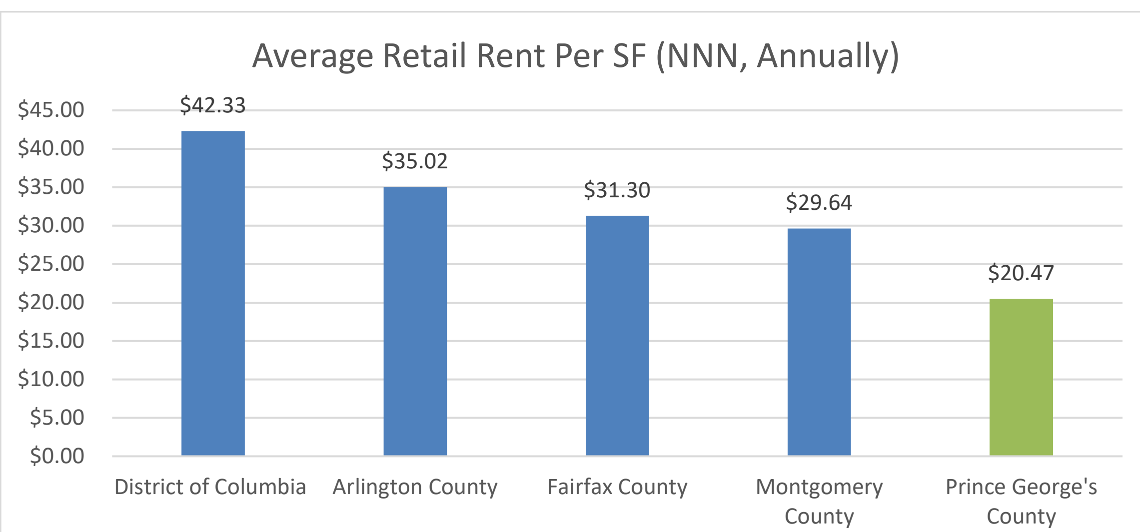
*Fees: Impact fees including school, public safety, transportation, tap and utilities fees, permitting fees, and certificates of occupancy.



*Prince George's County has relatively high property taxes which affects the bottom line return. Tax abatements would be a way to ease the burden on new developments.


Average Residential Rent Per SF (Monthly)
$3.50
$3.00
$2.50
$2.00
$1.50
$1.00
$0.50
$0.00
$2.97
$2.51
$2.38
$2.30
$2.27
$2.25
$2.11
$1.95
$1.78
DC Market
Arlington County
Montgomery County
Baltimore County
Fairfax County
Anne Arundel County
Prince George's County - Outside Beltway
Prince George's County - Inside Beltway
Howard County


Average Office Rent Per SF (Annually)
$60.00
$50.00
$40.00
$30.00
$20.00
$10.00
$0.00
$51.39
$39.51
$28.34
$28.17
$21.52
District of Columbia
Arlington County
Fairfax County
Montgomery County
Prince George's County


Average Retail Rent Per SF (NNN, Annually)
$45.00
$40.00
$35.00
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$0.00
$42.33
$35.02
$31.30
$29.64
$20.47
District of Columbia
Arlington County
Fairfax County
Montgomery County
Prince George's County

One Developer's Perspective on the Relative Cost to Develop in the County Vs. Other Local Jurisdictions:

> "*Prince George's County has an expensive fee structure and tax structure. It costs you millions of dollars of fees upfront. This hurts the development budget. We don't need home runs and we don't need huge profit. But two or three percent of our development budget goes towards impact fees. Coupled with the lowest rents and sales prices in the DC area, that becomes a barrier. I think Prince George's is an emerging market. And in an emerging market, it is unhelpful to have high upfront fees. There are high upfront fees for water and sewer, high fees for schools. They've reduced them at TOD sites, but they're still a lot higher than the [regional] competition*."

Prince George's County's lower land values and pricing may reduce development costs somewhat, but will not tilt developers to do deals that are otherwise unattractive on a risk-adjusted basis. Developers typically estimate – or attempt to keep – land costs at around ten percent (10%) of the overall development costs of a development deal. Accordingly, a low land cost does not alone make a deal that has a weak risk/reward proposition more desirable. Land is just another cost in the deal and not the largest one overall – lower land costs will not make an otherwise unattractive deal that much more attractive. Moreover, developers are risk takers looking for great upsides on a risk-adjusted basis—they make their real money on the "promote" or "back-end" upside of a deal not the developer fees – so they accordingly are more likely to be willing to pay more for land to pursue a project with a great upside, than pay less for land but not be able to project the risk-adjusted upside they are seeking.

In summary, the economics of Prince George's County provide less opportunity for a strong financial return on investment for developers. This competitive disadvantage within the region is one of the main reasons why other jurisdictions are seeing more development activity than Prince George's County.

Implications. Prince George's County does not have the ability to increase revenues for developers, but it does have the ability to reduce costs. One possible way to reduce costs for developers is to reduce property tax rates or development fees. Another way to reduce costs is to speed up the entitlements process or help reduce the risk of a developer spending a lot of money in the entitlements process without the project being approved.

Entitlements Process: The Approvals Process Has Improved, but is Still Relatively Slow, Expensive, and Risky

Developers agree that the approvals process in Prince George's County has become more transparent in recent years. However, a majority of interviewees with experience developing in Prince George's County stated that the approvals process is more arduous in the County than in most of the other jurisdictions in the area. There are four main ways that the approvals process in Prince George's County impacts developers:

- **It's lengthy.** The approvals process takes longer in Prince George's County than in most of the other nearby cities and counties. While approvals vary depending on the type of development, the interviewees agreed that it typically takes them between 2 and 3 years to go through the approvals process in Prince George's County (some say more), and it typically takes them between 15 and 18 months to go through the approvals process in many other areas outside of the County. Interviewees expressed the lengthy entitlements process affected all land use types (residential, retail, office, and industrial products), multiple development types (PUD, subdivision, and standard) as well as each phase of the approvals process (subdivision, detailed site plan, and construction documents).

Developers find the following approvals processes to be particularly lengthy:

- Subdivision: "There is a massive log-jam in the process. It takes 70 days to review this, 70 days to review that. It creates a tremendous amount of uncertainty about what you'll have to contribute and what you'll have to give up in order to get approval of the planning staff. If they don't like what you're doing they'll hold you up."
- Pocket detail: "The planning staff will say 'you're approved; now wait 30 days for party of record appeals period.' So, if a resident calls it up, the county has to review it. But if a councilman calls it up, they can just disapprove it. If I'm the developer, I might've spent a million dollars in this process to date, and they could just pull it."
- County call-up: "Now call-up has a 120-day response time. I would have lobbied for 60 or 20 days."
- Fire review and utilities review: "Fire review is way too long. The fire review currently takes 4 months. Plans take 4 weeks to create. How can fire review take so long?"
- Community approval: "The negotiating process never ends. There needs to be certainty that if you meet the requirements you know you'll get approved and you know the timing and that they'll adhere to the process. Neighbors only get 30 days (to respond). Everyone should only get 3 minutes individually (to speak at hearings or meetings)."
- Bureaucracy: "In the current process, you need to speak with so many officials instead of one. Every time you submit plans everyone comments, and if you challenge them they say 'take us to court.' Well you don't have time to do that."

- **It's uncertain.** Developers frequently enter the approvals process without having a strong sense regarding how long it will take, whether they will be approved, and what adjustments they will have to make. Said one developer: "*I'd rather get the answer 'no' then get strung along for a long time. Having certainty whether they're going to say yes or no would save time and money.*" Another aspect that adds uncertainty to developers is what is commonly called "County Call-Up," which is the ability of a County Councilmember to elect to review, on their own initiative, a proposed development project that has received a decision from another body such as the Planning Board or Zoning Hearing Examiner. Developers fear that a development that would otherwise be approved might be derailed by the County Call-Up process. "*County call-up is a big risk factor. We deal with politics and political turnover in most jurisdictions. But we don't see anything as distinct as in Prince George's."*
- **It's expensive.** In development, time is money. The longer the developer has to wait before he or she can build, the more time it takes them to pay back their debt associated with site acquisition and soft costs. Costs are also driven up when the process requires numerous site or building design changes or significant involvement from legal teams. Said one developer: "*you can't afford to build a lot of things because of how much it'll cost you to go through the process.*" Said another: "*County call-up alone in Prince George's has cost us millions of dollars in interest carry*."
- **It's complicated.** The zoning code is lengthy and confusing. Numerous zoning overlays add complexity. Developers say they wish there was a clearly-defined, step-by-step guide to going through the entitlement process in Prince George's County.

Implications. The Zoning Rewrite will help condense the zoning code and make it easier to understand and follow. The County should still incorporate changes to help expedite the approvals process as well as reduce cost, timing and outcome uncertainties for developers.

Reputation: Prince George's County's Reputation among Developers is Improving

A large portion of those interviewed referred to Prince George's County's reputation for being a difficult place to undertake real estate development projects. **Importantly, interviewees overwhelmingly expressed that this reputation is improving.** Many developers praised the changes implemented by County Executive Rushern Baker. Said one developer: "*The County had a very bad reputation and history with the Johnson Administration. But Baker has helped pull them out of that. His term doesn't last too much longer, though, so there's uncertainty with that.*" Another developer said: "*Rushern has been a good steward and a good promoter for the County. He has tasked his staff with finding creative ways to un-jam things to get them done.*"

Implications. Prince George's County has made impactful changes that have improved the development process in the County. Developers have noticed, and a once-poor reputation has improved significantly. There is a strong opportunity to continue this momentum and change the perception of Prince George's from a place that is hard to do business to a location where the development process is efficient and more certain.

County Strategy: The County is Focusing Its Efforts in the Right Places

Developers agree that one of the greatest assets in the County is its road and Metro connectivity to DC and the rest of the region. The interviewees support the County's strategy of concentrating its resources and attention to promote development at the Metro stations. The changes made under Rushern Baker's administration have been overwhelmingly positive, and have helped to promote development in the County. "*A lot of staff at Parks and Planning get it. They understand that if they want tax revenues they need to let development happen.*" Another developer elaborated: "*They have the most important thing in place, which is the desire to grow. That's really important. That permeates what they do. We want to expand that and keep things going.*"

Implications. Developers feel the County has the will, leadership, and vision necessary to support high-quality development. Additional changes will need to be made, but the County is heading down the right path.

Ideas and Recommendations

1. Continue to Incentivize Highest-Quality Development at Metro Station Focus Areas

Prince George's County should continue to execute its strategy of prioritizing planning efforts and active development partnerships at key locations near to Metro stations.

- **Prioritize development subsidy for large-scale, catalytic, transit-oriented development near Metro stations within the County.** These are the locations where the County should have a heavy hand in steering development to ensure they meet the County's desired standards of quality, design, and land use.
- Continue to prioritize **financial investments in placemaking, public space development, and infrastructure.**
- **Consider helping to subsidize the financial risk of real estate developers involved in high-priority catalytic projects.** For many developers, the primary factor that prevents them from being involved in such development efforts is the risk that a project will perform poorly or that after years of pre-development that a project will fail to get off the ground entirely. By sharing in the financial hardship of possible worst case scenarios, the County can help (a) create the types of conditions where a greater range of world class developers would be

interested in engaging in these types of projects and (b) would share in the same incentive structure to get a development approved in a timely manner.

- A concrete example of a risk-sharing mechanism would be where the deal is structured to have different transaction terms if an estimated zoning result (for example, number of units) isn't met. Take for example a deal where the County owns land that it is going to sell to a developer. The developer intends to get the land re-zoned for 200 units. The parties could agree that 200 units are a realistic entitlement goal and that if less than 150 units are approved the acquisition price would drop to a certain dollar amount. Other alternative structures might include a specific increase in subsidy, or fee or tax abatements, if the projected zoning result isn't reached. The reduced acquisition price, or the additional subsidy or abatements, make the deal still feasible despite the drop in approved units. These possible structures are examples of the County sharing the risk in a deal.

2. Continue to Take Steps to Make the Standard Approvals Process as Fast and Simple as Possible

The main hurdle the County needs to overcome is the relatively higher expense and uncertainty in its development process. In addition, the end development product currently produces lower rents or sales prices than in the competing counties. Aside from priority development efforts that receive significant County intervention, entitlements elsewhere throughout the County should be made as fast and simple as possible to help encourage development and reduce costs during the approvals process.

- **Simplify:** As part of the zoning rewrite, strive towards doing away with zoning overlays, as well as enterprise zones, and TIF districts that are outside of the County's strategic focus areas.
- **Expedite:** Develop a streamlined approvals process that reliably takes less than 18 months for most development projects. This will involve expediting most permitting and review processes, including subdivision, community review, site plan review, construction documents, utilities and fire review. Each review process should occur over a set time period with a set number of staff involvement and a clearly-defined and unbending explanation of what developers need to do to get approved. Each separate review or permitting process should take no longer than 3 months individually, except for extenuating circumstances.
- **Create Certainty:** If a portion of the review process takes longer than its allotted time period, it should default towards being approved.
- **Provide a Roadmap:** Create a clear and concise step-by-step guide of the approvals process, including the expected duration of each phase. This guide should be available on the County's website as well as in hard copy format.
- **Advocate for the Developer:** Consider creating staff positions for "Development Ombudsman." A development ombudsman works directly with developers to educate and help guide them through the approvals process. Many cities take this approach on a situational basis- particularly when they are seeking to promote certain types of development, e.g. retail development in Oakland, California. The title of the position varies, but naming and

broadcasting to the development community that the position exists can often contribute to changing or improving the perception of a development-friendly environment, in addition to potentially expediting processes. Moreover, the position signals to non-County developers that the County will help them navigate the process in a way that may help them consider taking a second look at County opportunities.

- **Establish Measurable and Specific Design Standards:** Create form and design standards that, if complied with, allow a development to proceed by right without going through a public hearing (a large or complex project might require one public hearing). Uniform and measurable design standards will provide more certainty for a developer, while at the same time ensuring a certain minimum level of quality for the development. The standards should include some flexibility provisions that an applicant might be able to pursue to make minor adjustments to the design standards if they comply with specific review standards (review and decision would be made by an administrative official – so there is some flexibility, but it is bounded by the review standard).
- **Reduce Costs:** If possible, consider reducing development impact fees.
- **Create a Pro-Development Culture:** Starting from top-level leadership all the way down through every member of staff, instill a culture in which staff members attempt to find solutions to enable development as opposed to stalling it.

3. Become Known as THE Development-Friendly Place to Build

Continue to advertise the exciting new development projects within the County as well as promote the ways in which the County has become more development-friendly.

- Conduct targeted outreach and advertising to the development and investment community to communicate the ways (see above) in which Prince George's County has transitioned to become one of the more development-friendly jurisdictions in the region.
- Led by Rushern Baker, engage the full staff within planning, development and entitlements to spread a renewed culture of being "pro development" and striving for innovative, high-quality built product. As one developer said during the interview: "*County staff members are worried that if they let something slide, they will get in trouble. They're trying to find ways in which a development is not conforming.* ***This mentality needs to change to a 'culture of yes.'"***

Conclusion

Prince George's County is well positioned to achieve its goal of bringing in additional high-quality development. The most important steps are already underway: positive leadership changes; a strong, logical vision; an improving reputation; and a zoning rewrite that can help create more understanding, more efficiency, and a better built form. The County has a large economic hurdle to overcome given high construction costs and low resulting revenues. Within designated priority focus areas, the County should remain an active development partner that is willing to work creatively with the private sector. For development in the remaining areas within the County, steps should be made to make the approvals process faster, simpler, and less uncertain. In this way the County can continue to change its brand to a culture where developers are supported and high-quality development is the norm.

Appendix 1 – Developers Interviewed

Developer Name	HQ Location	Size*	Primary Niche	County Development Experience**	Signature Prince George's County Development	MWBE
Walt Petrie, *Petrie Richardson Ventures*	Annapolis, MD	Small	Shopping Centers	Significant experience	Woodmore Towne Centre at Glenarden; Centre at Forestville	No
Steve Strazzella, Matthew Bailey, and Jeff Kayce, *Bozzuto Group*	HQ in Greenbelt, *(Prince George's)*	Very Large	Multifamily residential	Significant experience	MetroPointe at Wheaton; Esplanade at National Harbor	No
Buwa Bintie, *Dantes Partners*	Washington, DC	Small	Affordable residential	No county experience	None	Yes
Thomas Aylward, *Jackson Shaw*	HQ in Dallas, TX; regional office in Washington, DC	Medium	Office; some industrial & mixed use	Significant experience	Brickyard Station; Andrews Federal Campus	No
Vicki Davis, *Urban Atlantic*	Bethesda, MD	Medium	TOD; masterplans; mixed use	Significant experience	Involvement w/ New Carrollton; multiple residential properties	No
Jair Lynch, *Jair Lynch Real Estate Partners*	Washington, DC	Medium	Multifamily; mixed use	Limited experience	Looked into deals but has not developed in Prince George's	Yes
Bob Youngentob, *EYA*	Bethesda, MD	Large	Townhomes; masterplans	Limited experience	Arts District at Hyattsville	No
Jeffrey Berman, *Berman Enterprises*	Rockville, MD	Medium	Holding and investment; commercial	Significant experience	New Carrollton Metro; Bowie Marketplace; U. Town Ctr. Hyattsville	No
Deborah Ratner Salzberg, *Forest City*	HQ in Cleveland, regional office in Washington, DC	Very Large	Large scale, mixed use	No County experience	None	No

** Size: Small = under 10 employees; medium = 10-50 employees; large = 50-1,000 employees; very large = over 1,000 employees*
*** County Development Experience: None = no experience pursuing projects in Prince George's County; limited = have completed less than three projects; significant = have successfully developed three or more projects in Prince George's County*

Appendix 2 – Interview Questions

Developer Background

1. What type/scale/quantity of development do you do?
2. Where are your projects predominantly located?

Experience in Prince George's

3. Have you done work in Prince George's County?
4. If so, how much and where?
    a. (Number of projects, what types, total SF/units, total value, etc. in last 5/10 years)
5. Describe your experience in development in Prince George's County
    a. If no direct experience: describe your perception of doing work in Prince George's County
6. Experience detail: When did you begin your projects? When were building permits issued? How does this timing compare to your experience in other jurisdictions?
7. Do you think you will be doing more or less work in Prince George's in upcoming years? Why?
8. What has been your experience financing development projects in Prince George's County?

Strengths and Opportunities

9. What are Prince George's relative strengths and opportunities for new development?

Weaknesses and Threats

10. What are Prince George's relative weaknesses and threats for new development?

Recommendations

11. What are your thoughts on the entitlement and approvals process in the county? How could this be improved?
12. What are your thoughts on current zoning in the county? How could this be improved?
13. What are your thoughts on the real estate market in Prince George's? How could this be improved?
14. Are there any other aspects that influence your receptivity to developing in Prince George's? How could those be improved?
15. Have you seen anything that other counties do (entitlements/zoning/etc.) that could help Prince George's County?
16. What processes or incentives could be offered to enhance your ability and willingness to work in Prince George's County?