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## Real Estate & Development

### Bethlehem CRIZ projects drag as developers seek clarity, potentially better incentives

By **Brian Pedersen**, October 19, 2015 at 8:00 AM



Greenway Park, a mixed-use project of retail, office space and residential units at Third and New streets, Bethlehem, is in the City Revitalization and Improvement Zone. The project, proposed by Dennis Benner, has yet to receive approvals to begin construction. (Contributed)

Nearly two years after Bethlehem earned a coveted tax incentive program from the state for boosting economic development, little has happened.

While Social Still Micro-Distillery & Kitchen became the first completed project to benefit from Bethlehem's City Revitalization and Improvement

Zone, it is the only one of the city's group of 11 shovel-ready projects that has moved forward with construction since the city earned the designation in late 2013. Only one other project, Greenway Commons, has received city planning commission approval.

## LOOKING AT LANCASTER

Development on City Revitalization and Improvement Zone projects has been slower than expected in Lancaster, too, which earned its designation at the same time as Bethlehem, in 2013.

The city is seeking small but important changes to the legislation, said Randy Patterson, director of economic development and neighborhood revitalization for Lancaster.

"We had seven projects in our application; one is moving forward without CRIZ dollars. We've only financed three out of the seven," Patterson said.

The CRIZ authority has approved four projects, he said. One, the Hotel Lancaster project, is an existing building that is being fully renovated. A second project, Conestoga Plaza, has seen the completion of site improvements, but vertical construction of buildings has not begun.

"The biggest challenge is financing," Patterson said about CRIZ projects. "You can't guarantee financing to a project. The legislation doesn't allow a commitment to a single project. We are trying to work with our legislators to get changes done."

—*Brian Pedersen*

With the CRIZ, qualified state and local tax revenues can be used for payment of debt service on bonds or loans issued for the acquisition, improvement and development of capital improvements in the zone. The CRIZ is available in only two cities in the state, Bethlehem and Lancaster, with a pilot program in one borough, Tamaqua.

When the city earned the CRIZ, officials identified 11 projects ready for redevelopment on vacant or underused properties in the zone. The initial reaction in the business community was one of renewed enthusiasm for kicking off a wave of

revitalization, similar to the unprecedented success in downtown Allentown with its Neighborhood Improvement Zone.

While its purpose is to address vacant, blighted properties on 130 noncontiguous sites in Bethlehem, two main factors hinder the growth of CRIZ projects:

Developers are uneasy about the risk involved in an unproven incentive and want clarity on what taxes could be used to offset the cost of the project.

The language in the legislation might be amended by state government, which is causing developers to wait for potential increases in incentives they could offer a tenant. Meanwhile, however, the state government – consumed with the budget crisis – is not focused on the CRIZ.

“Unfortunately, the CRIZ statute as it stands is not as powerful of a development tool as a lot of people had anticipated,” said Don Cunningham, president and CEO of Lehigh Valley Economic Development Corp

### ONE OF 11 PROPOSED PROJECTS IS COMPLETED

Eleven projects identified on Bethlehem’s City Revitalization and Improvement Zone application from 2013. Of these, only one, Social Still Micro-Distillery & Kitchen, is completed. None of these other proposed projects are under construction. However, Third Street Renovations, which is the Greenway Commons project, received planning commission approval.

- **Bass Pro Shops**/hotel and convention center at First Street.
- **Martin Tower** redevelopment on Eighth Avenue.
- **Gateway to South Bethlehem** at WestThird Street.
- **Bethlehem technology facility** at Commerce Center Boulevard.
- **Greenway Park revitalization** at Third and New streets.
- **Northside Plaza** at Eighth Avenue.
- **Lehigh Valley Industrial Park VII** industrial and manufacturing space at Spillman Drive and Emery Street.
- **Third Street Renovations** (Greenway Commons and Social Still Micro-Distillery & Kitchen).
- **Walnut Street Garage**, Long Street Lot and New Street Garage.
- **Redevelopment of the Bethlehem Steel** general office building into the Tau building.

A main difference is that Allentown’s one-of-a-kind NIZ allows for the capture of taxes from both existing and new entities to be used for debt service to pay for construction. The CRIZ, however, allows only certain taxes from new entities to be applied to debt service to help finance development.

“It’s only for new corporate entities to benefit from,” Alicia Karner, director of community and economic development for Bethlehem, said about the CRIZ.

The risk is on the developer, who first has to acquire a tenant for the project in order to receive any CRIZ benefit. The developer has to borrow funds and outlay development costs before there is any return on the CRIZ investment.

Since Pennsylvania’s existing businesses are exempt from the benefit, there isn’t a built-in pot of funds to pay for projects from the beginning, she said.

“There is a lot of work going on with the state legislators to amend the legislation,” Cunningham said. “The world of development is all about risk mitigation. The reason that you haven’t seen the CRIZ really launch into developed properties yet is because the legislation needs tightening up.”

However, Cunningham said, he is confident projects identified in the CRIZ would get developed with or without the CRIZ incentive.

“Everyone is working on getting something coming out of the ground,” said Dennis Benner, a Bethlehem developer with several projects in the CRIZ, including a mixed-use building at Third and New streets, another at Fourth and Vine streets near Lehigh University and Northside Plaza, an office building on Eighth Avenue across from Martin Tower. Northside Plaza was introduced years before the CRIZ announcement but there has been no construction.

“The CRIZ is a powerful tool, but I think real estate fundamentals exist with what I’m doing,” Benner said.

If the CRIZ did not exist, he still would move forward with the projects but perhaps cast in a different way, he said.

The way the CRIZ is interpreted can make a difference in terms of cash flow and in particular how the CRIZ is implemented on a development scheme, Benner said.

“If you are giving an incentive to a tenant, you have to know what you are giving them,” he said.

Benner’s goal is to build attractive, new retail and residential spaces that will bring people to the South Side.

“I want to build a college town,” Benner said. “We’ve focused on the South Side development that ties into Lehigh University. I want to see a college town developed in a very high-class way.”

Next to Social Still are three underused parking lots that Peron Development LLC of Bethlehem will develop into Greenway Commons, a \$35 million project of retail, office and 110 luxury residential units.

That project, also in the CRIZ, was expected to start construction in the spring. It recently received planning commission approval.

The developer said construction should begin shortly but could give no firm start date.

“We hope to start soon; we are working on some site work and touching up design,” said Robert de Beer, director of development for Peron Development. “We fully expect to utilize the benefits afforded to us by the CRIZ.

“It’s safe to say there are some complexities that need to be understood.”

J.G. Petrucci Co. Inc., which has an office in Bethlehem and Asbury, N.J., is designing and plans to build two projects in the CRIZ. These are the Gateway to South Bethlehem project at West Third Street and a 175,000-square foot flex space for a manufacturing/industrial building at Lehigh Valley Industrial Park VII off Route 412.

These projects have yet to start construction.

Last year, Sands Casino Resort in Bethlehem announced plans to build a Bass Pro Shops/hotel and convention center on its property in the CRIZ. However, there is no update at this time about the project, said Julia Corwin, a spokeswoman for the resort.

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### Brian Pedersen

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