Problems mount, but development continues

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By KEN MACDONALD
San Francisco Correspondent

Shopping centers still are operating in California (some at considerable profit, a few skirting the edges of red ink); they still are being built and opened (albeit at a slower pace than in other years); and many still are being planned for the months ahead (even with uncertainty and a degree of fear in the minds of developers).

It is true, however, that shopping center developers, managers and tenants alike now are beginning to agree that "the easy days of easy profits are gone and may not be seen again in our lifetime."

They also agree that, perhaps for the first time, all three, in order to survive, "must accept the full-partnership concept and work together to help solve the immediate problems and those that are just around the time-corner."

California led the way in efforts to get rid of one of those major problems: the parking facilities tax and regulations proposed by the U.S. Environmental Protection Agency, now "postponed" for one year.

Conrad C. Jamison, vice president and economist for Security Pacific National Bank, estimates that the EPA tax, had it been in effect last year, would have eliminated \$160 million or some 26% of all industrial and \$450 million or nearly 41% of all commercial construction projects within California.

"Many of these industrial-commercial projects which the EPA parking regulations would have eliminated," Jamison reports, "would have involved either new shopping centers or developments which would have become potential homes for new shopping centers."

The proposed EPA parking surcharges, which may very well spring back to life in 1975 or 1976, applied to a typical California supermarket of 21,000 sq. ft., with 16,000 sq. ft. of selling area, such as found in most shopping centers, and with gross annual sales of about \$3 million, would have cost 85% more than such a supermarket's annual net profit.

"Shopping center operational costs," Jamison points out, "would have skyrocketed so fast and so far that many centers might well have faced bankruptcy."

With the EPA parking tax proposal temporarily out of the way, California developers, instead of being able to relax a bit and go about their business, found themselves facing additional potentially painful cost and operational problems.

EPA, for example, has not abandoned tough anti-smog rules that require a special permit for any new large-scale construction projects, such as shopping centers, that generate automobile traffic and thereby affect air quality.

In northern California, developers still face construction moratoriums in such cities as Livermore and San Jose and in Alameda and Marin Counties.

At the same time, community facility fees for streets, sewers, sidewalks and other such elements of construction continue to skyrocket and add to building costs.

Under new legislation signed into law by Governor Ronald Reagan, the state of California now is required to adopt energy conservation standards no later than July 1, 1975, to be applied to all new buildings and projects constructed within the state, including shopping centers.

And the California Public Utilities Commission is seriously considering a staff recommendation to ban almost all new construction in the state for the next three years "to help alleviate the energy crisis."

Dr. Rolf Eliassen, Palo Alto-based engineer and member of the General Advisory Committee of the U.S. Atomic Energy Commission, believes that the energy crisis and gasoline shortages "will make people think twice about living in the suburbs."

Shopping center developers as well as commercial, industrial and residential builders are listening carefully to the advice of experts such as Dr. Eliassen and men like Philip S. Stutkin, executive vice president of Economics Research Associates, San Francisco-based real estate consultants.

Projects within urban centers, Stutkin believes, "will have a considerable competitive edge over those which depend on automobile use for customer patronage.

"Even the customers will move," Stutkin adds, "as demand for housing shifts from the suburban to the urban areas. The potential shopping center customer will more and more be concentrated within the cities."

One result developers may face would be substantial increases in the cost of what urban land might still be available and a drop in land values in the more remote areas. Developers may be compelled to redefine their trade areas, in terms either of shorter driving distances for customers or easier access to public transportation.

Substantiating this concept is the 1973 experience of the 1.1 million sq. ft. Tanforan Park shopping center built at San Bruno in 1971 by Beverly Hills-based Hapsmith Co., on the site of the former Tanforan Race Track.

Even with the energy crisis and the gasoline shortage, Tanforan Park had "a good year" last year, with gross sales of \$13.3 million, a * 40.4% increase over the 1972 gross of \$9.45 million.

Tanforan, it should be noted, is a two-level, garden-type enclosed mall shopping center with three-level parking. It is less than 15 minutes south of San Francisco by car, five minutes from the airport, and only a short drive from Peninsula suburban communities. Greyhound commuter bus provides public transportation to the center.

The 1973 gross sales total for Tanforan excluded three anchor tenants: J. C. Penney, which reportedly had 1973 sales of \$17 million; Sears, \$19 million; and the Emporium, \$10 million. On average, the three department store volumes were up 30% over 1972.

In contrast, Montgomery Ward finally abandoned its plans to build a new multi-million-dollar store as anchor tenant of an in-the-city shopping center which the black-owned Pyramid Development Co. plans to build in a seven-block Fillmore Commercial Center as the "core" of a Western Addition redevelopment program. Top executives of the chain decided that "the return on the investment would not justify the construction."