

**A Redevelopment Action Strategy
for the Central Business District of the
Borough of Hightstown, NJ**

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for the
Greater Hightstown/East Windsor Improvement Project**

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I. Purpose and Scope

This white paper has been prepared on behalf of the Greater Hightstown East Windsor Improvement Project (GHEWIP) to provide an assessment of the Borough of Hightstown's downtown redevelopment opportunities and outline a strategic framework for implementation. The focus of this analysis is establishing a short-term strategy to restart the redevelopment effort for the Rug Mill property. A cursory assessment has also been given to several long term opportunities in other locations within the downtown. As part of the preparation of this report, Phillips Preiss Grygiel LLC (PPG) visited the Central Business District (CBD) on several occasions, met with representatives of GHEWIP, reviewed various plans and reports prepared on behalf of the Borough and GHEWIP regarding the downtown area, the Rug Mill site and the Interchange 8 project and also researched property and tax records for select properties within the downtown area.

The following section summarizes an overall vision for the CBD and describes the importance of the Rug Mill project as the linchpin for downtown revitalization. Section III outlines a strategy for restarting the Rug Mill project. Section IV lists several long-term redevelopment or improvement opportunities within the CBD. Section V sets forth the overall conclusions of the report.

II. Vision

The Borough, GHEWIP, Downtown Hightstown Inc., the Historical Society and other members of the Hightstown community have made significant progress in revitalizing the CBD. Nonetheless, sustaining a healthy downtown remains a challenge due to the current economic environment, the continued development of the Route 1 and 130 commercial corridors, the growth of online shopping and other factors. Fortunately, the Borough of Hightstown possesses several competitive strengths, including its historic “sense of place,” compact physical form and multi-purpose downtown, which separate it from other small towns in Central New Jersey. Hightstown is also located within a reasonable commuting distance of several employment centers (e.g., Princeton, Trenton, Route 1, etc.). As a result, the Borough could be a desirable location for the growing regional population. According to the Delaware Valley Regional Planning Commission (DVRPC), the population of Mercer County is projected to grow by approximately 40,000 new residents by 2035. In addition, long-term demographic trends point to potential market opportunities for the downtown. Specifically, two major segments of the housing market, Generation Y (defined as those currently between approximately 15 and 32 years old) and aging Baby Boomers, tend to prefer walkable downtown living opportunities of the type that could be provided in Hightstown.

In order to capture some of the demand generated by regional growth and demographic trends, the Borough needs to aggressively pursue a market-based approach to revitalization and redevelopment. The stalling of the Rug Mill project – along with other economic challenges – has left the Borough’s revitalization efforts stuck on a plateau. A “big move” project is needed to create destination appeal¹, improve the quality of life for current residents and workers and increase tax rates. Despite recent setbacks, the Rug Mill/Bank Street site remains the most logical redevelopment opportunity. First, it is simply the largest redevelopable site in the Central Business District, located within walking distance of Main Street, historic Stockton Street and the Peddie Lake area. Second, the Rug Mill could help create an attractive “gateway” environment around the intersection of Main Street and Franklin Street, which could include the visual enhancement of Peddie Lake, Rocky Brook and other water features/amenities. Also, a few of the Rug Mill buildings possess a historic quality which may augment the marketability of the project. Lastly, the Borough has already made a significant financial, political and social investment in the project, so bringing it to fruition is a paramount concern for the community.

¹ It should be noted that the Interchange 8 project may result in decreased auto traffic through the downtown. While this is positive in terms of improving the quality of life for most residents, it might also result in a decrease in retail spending captured from pass-thru. For this reason, the notion of enhancing the downtown as a destination is critically important.

A successful project at the Rug Mill will signal that Hightstown has the requisite qualities and critical mass to attract a young professional/empty nester population. Without headway on the Rug Mill project, significant private developer interest in the rest of the downtown will not materialize. The current economic environment highlights the need for planning and development policies that provide a clear and certain economic opportunity sufficient to entice private investment in the project. The following section outlines a fresh strategy to accomplish this objective and catalyze short-term movement.

III. Reviving the Rug Mill

A. Reconsidering the Existing Plan

In 2011, the ability of the private sector to subsidize public improvements and adhere to rigorous land use and design standards is severely limited by the economic realities of the post-financial crisis environment. Redevelopment in New Jersey has experienced a dramatic paradigm shift since 2008 which basically requires the Borough to hit the “restart button” in terms of the key assumptions and policies that have informed the Rug Mill plans to date. This requires a reexamination of the existing land use and development standards for the Rug Mill in order to create a plan that provides an economic incentive for the private sector and ensures the advancement of the Borough’s community development objectives. Based on PPG’s analysis of the existing plan, it is recommended that the Borough reevaluate the following issues:

1. *Borough Hall*: The idea of requiring the redeveloper to provide a new municipal facility as part of the project may need to be scaled back or reconsidered in its entirety. The current plan provides four options for fulfilling this requirement:
 - a. Adaptive reuse and reconstruction of the existing municipal building, located at Block 30, Lots 10, 11 and 12
 - b. Adaptive reuse of the existing historic structures located at Block 30, Lot 2 with the outfitted space and land to be conveyed to the Borough by deed
 - c. Construction of a new municipal facility to be conveyed to the Borough by deed from the selected Redeveloper
 - d. Monetary contribution in an amount to be negotiated by the Borough and the selected Redeveloper and detailed in the Redeveloper Agreement to renovate its existing facility or to construct a new municipal facility

The redevelopment of the Rug Mill property carries a substantial amount of risk even without the municipal facility component. In order to attract private development, the Borough should consider alternative strategies for creating a new or renovated municipal facility. The temporary relocation of Borough Hall to the Lucas Electric property may provide an opportunity to consider a more permanent arrangement.

2. *Restriction on Rental Units*: The Borough should seriously consider allowing rental residential units and increase the allowable densities in the plan. The reality is that there is little or no potential for a condo development in the current or anticipated market. Meanwhile, the multifamily rental market is the only bright spot in the residential real estate market in New Jersey. Notwithstanding the market-related factors, there are sound planning reasons in support of allowing an option for rental units on the site:

- The project would likely attract an affluent renter demographic which can help stimulate downtown spending activity. Proximity to restaurants and retail is a sought after quality by potential renters/buyers.
- The demand for rental units is related to the preferences of the population beginning to enter the housing market. Gen Y prefers to rent for at least a time as they tend to change jobs/careers more than previous generations. In fact, according to a study by RCLCO, approximately 41% of Gen Y anticipates renting for at least 3 years prior to purchasing a home.
- Rental units tend to create few new school kids. Over 85% of net household growth by 2025 will be households with no children.
- Rental units could qualify the rehabilitation project for federal historic rehabilitation tax credits, which are restricted to income-producing (i.e., rental) residential projects.
- From a fiscal impact standpoint, rental apartment units would place minimal demands on the school district in terms of increased costs.
- The ability to finance a for-sale project in an untested market such as Hightstown is practically non-existent for the foreseeable future.

For the above reasons, the Borough should explore allowing rental units in the redevelopment plan.

3. *Affordable Housing:* The existing plan requires the provision of a maximum of 14 units on site. The inclusionary requirement should be reevaluated in consideration of anticipated changes to New Jersey affordable housing rules and regulations as well as economic feasibility concerns.
4. *Density:* The total allowable yield (130 units) should be reconsidered in recognition of a drastically altered market. The plan must provide an economic incentive sufficient to overcome the upfront cleanup and construction costs. The best method to identify a reasonable density figure would be to conduct interviews with potential redevelopers.
5. *Size of units:* It is not necessary to mandate minimum size requirements for the townhouse/duplex and multifamily units. The redeveloper should have flexibility to respond to shifting market preferences and the physical constraints related to adaptive reuse and site design issues.
6. *Land Uses:* Residential uses will drive the redevelopment of the Rug Mill. The ability to construct attached two-family or townhouse units is dependent on acquiring the warehouse portion of the property currently owned by Trans USA. There may be

opportunities for retail (along Main Street) and small office uses, but these will likely require some level of subsidy provided by the residential component. Retail is probably not feasible along Bank Street due to access and visibility limitations. Accordingly, ground floor commercial uses should not be required for any location except possibly for those buildings with frontage along Main Street. The minimum non-residential requirement of 20,000 sq. ft. may need to be reconsidered.

7. *Adaptive Reuse v. New Construction:* In reality, any developer would likely seek to build on the existing foundations in order to avoid the floodplain-related construction requirements. Also, the availability of federal historic tax credits may favor an adaptive reuse strategy. Nonetheless, the plan should allow for the demolition and clearing of the entire site in order to provide maximum flexibility.
8. *Small Cities Block Grant:* If this grant is still desired, private matching contributions should be negotiated with the redeveloper.
9. *Passive water feature:* The recent inundation of the Main Street area, including a portion of the Rug Mill site, highlighted the flooding risks of the Rug Mill property. It may be advantageous to explore promoting – or even requiring – the construction of a well-designed passive water feature connected to Rocky Brook which could also serve as a detention pond in the event of a flood.
10. *Tax Abatement:* The Borough should remain open-minded about negotiating a reasonable tax abatement/PILOT arrangement with the redeveloper. It will be extremely difficult to attract any private sector interest in the project without a tax abatement program.

A reevaluation of all of the above issues will be necessary to synchronize the existing plan with the economic realities of redevelopment in 2011. The following section outlines a process for accomplishing the above and attracting new private investment in the project.

B. Forming a Public/Private Partnership to Jumpstart the Project

Progress on the Rug Mill will not be possible without a close partnership between the public and private sectors to regain some level of site control and amend the plan. The following steps are recommended to rectify the project:

1. *Get site control.* The majority of the Rug Mill is currently owned by TD Bank (the warehouse building on Lots 7-14 is owned and utilized by Trans USA, a manufacturer of electronics). Regaining direct or indirect site control is critical to advancing the project. In the current fiscal environment, it is unlikely that the Borough would be willing and/or financially capable of purchasing the property from the bank. Alternatively, the Borough should seek out a non-profit partner/angel investor willing to acquire the property from TD Bank and serve as the master developer in a

public/private partnership with the Borough. This entity would seek to acquire the entire property, including the industrial building currently owned by Trans USA. It may be workable to keep Trans USA on a short-term lease to provide some income while the site is being readied for redevelopment and provide the tenant a window to identify a relocation strategy. The warehouse could be set aside as the final phase of the project. A commitment from the Borough to transfer the existing Borough Hall property to its private partner should be included. As the most valuable non-residential parcels on the site, the Borough-owned properties along Main Street should be integrated into the overall project. As detailed below, the overall strategy would be for the master developer to eventually transfer or pursue long-term lease arrangements with a subsequent redeveloper(s).

2. *Transfer municipal administration and oversight of the project to an independent Redevelopment Agency.* It may be advantageous to create an independent redevelopment agency separate from Borough Council to signal a fresh start for the project and erase some of the political obstacles which have hindered progress in the past. Large cities, such as Jersey City and Bayonne, as well as small- to medium-sized towns, such as Ewing and Morristown, have successfully used this approach to implement redevelopment projects. In many municipalities, the governing body has too many other responsibilities and initiatives which prevent it from devoting the necessary time and focus to a major redevelopment project. There is also the risk that the redevelopment process can become politicized, which creates uncertainty for the potential redeveloper. A redevelopment agency with the primary mission of implementing the Rug Mill redevelopment could help depoliticize the process by providing a day-to-day buffer between moving the redevelopment project forward and local political dynamics. This approach could also add specialized and professional expertise to the project. In fact, finding an experienced, independent executive director will likely be vital to the success of a redevelopment agency. As per the Local Redevelopment and Housing Law, the Agency should include 7 commissioners appointed by the Borough Council, including no more than 2 officers or employees of the municipality. The administrative costs associated with setting up and administering the agency would likely be outweighed by the benefits of depoliticizing the process and focusing full administrative efforts and professional expertise on redevelopment. It should be noted that the Borough Council would still maintain oversight in terms of approving changes to the redevelopment plan and executing agreements with potential developers.
3. *Identify potential Borough Hall relocation sites.* The removal of the Borough Hall reconstruction requirement contained within the existing redevelopment plan should be strongly considered. Moreover, the ongoing debate and dialogue regarding the

relocation of Borough Hall should be further developed.² A relocation of Borough Hall would free up the most valuable non-residential properties (i.e., the parcels with frontage along Main Street) on the site for redevelopment and thereby enhance the attractiveness of the property in a highly competitive market environment.

4. *Obtain SHPO opinion on State/National Register eligibility.* Historic rehabilitation tax credits could be a major asset in securing financing for the project. There is a strong possibility that a portion of the site may be eligible for listing on the State and National Register of Historic Places. For an income-producing (i.e., rental residential or non-residential) use, the project could qualify for a tax credit equal to 20% of the total cost of rehabilitation if it adhered to federal historic rehabilitation guidelines.³ Some developers specialize in syndicating those tax credits because they can provide upfront funds in the preliminary stages of development. This could be particularly helpful in obtaining a construction loan in the current economic environment.
5. *Develop a list of below-market financing resources.* The Borough should identify soft financing tools and other public subsidies that could be leveraged to implement the project. These may include historic rehabilitation tax credits, long-term tax abatements and affordable housing subsidies (if affordable units are desirable). This list of below-market financing sources could be used to help market the project to the private sector.
6. *Interview developers.* After a private partner gains site control, it will be beneficial to have informal discussions with potential subsequent developers about their overall vision for the site in the post-financial crisis world. This will give the Borough and/or the Master Developer a realistic understanding of the potential yield, land uses, amenities, rental/condo mix, which buildings can/should be reused, which should be demolished and, more generally, what the private market needs to make the site work. Another possible outcome could be a strategy for breaking the property up into smaller parcels to lessen the risk involved with taking on the entire property and enhance its attractiveness for redevelopment in the short term.
7. *Identify amendments to existing Redevelopment Plan that will be necessary to attract developers to implement the project.* In the current economic environment, developers are facing difficulty in financing front end costs required to obtain approvals for large projects. In this case, the master developer can reduce entitlement costs by marshaling the plan amendment process based on the input received from the development community in the aforementioned interviews. A

² It should be emphasized that the recent Hurricane Irene flooding incident, in which the Borough Hall building sustained serious damage and Borough operations were relocated to the Lucas Electric property, adds considerable urgency to resolving this issue. It is plausible that the Lucas Electric property could be renovated as a permanent Borough Hall facility.

³ The Secretary of Interior's Guidelines for the Treatment of Historic Properties.

formal amendment to the Redevelopment Plan should be drafted by the Borough in consultation with its private partner(s) in order to provide certainty and entice developer interest. Additional adjustments to the plan may be necessary once the redeveloper(s) is fully on board.

The strategy outlined above is intended to resurrect the project by using a strong public/private partnership to regain control of the site, collaborate on amendments to the plan and facilitate the physical development of the site. The critical ingredient is finding a trustworthy private sector or non-profit partner, preferably from within the Hightstown community. The importance of private developer input in identifying the necessary and appropriate amendments to the existing plan cannot be overstated.

IV. Other Opportunities

The Rug Mill is clearly the linchpin for the overall enhancement of the Central Business District and, at this time, there is little short-term potential for other redevelopment activity in the CBD. Accordingly, it was agreed that the Rug Mill would be the primary focus of PPG's planning analysis. Nevertheless, a cursory investigation of several other downtown locations revealed some long-term redevelopment concepts which may merit additional study and consideration on behalf of the Borough and GHEWIP. The following comments and recommendations for those select sites are offered in the spirit in which they are intended.

- *Gateway at Main Street/Franklin Street:* There is an opportunity to create a sense of arrival for visitors by promoting a synergistic relationship between the existing Main Street, the Rug Mill redevelopment and the long-term redevelopment of the shopping center on Block 26. This should include a mix of residential and commercial uses and active and well-designed public spaces oriented to Peddie Lake.
- *Block 26:* Block 26 is an integral piece of the “gateway” concept. The Interchange 8 project could result in additional traffic entering the Borough from Monmouth Street and, as a result, Broad Street could be positioned as an attractive access point to the CBD. The shopping center along the Franklin Street frontage (Lot 22.01) could potentially be redeveloped for a mixed-use project that could reinforce the area as a gateway to the Borough. Considering it may be difficult for the Borough to assemble these properties through redevelopment, it may want to consider a higher-density mixed-use zoning for this block to create underlying value in the property and thereby incentivize redevelopment. It should be noted that several commercial properties along the Broad Street frontage of Block 26 are currently for sale, so there may actually be some short-term opportunities to pursue while the redevelopment of the shopping center is worked out. Streetscape improvements to Broad Street would be necessary to realize this concept.
- *Municipal Parking Lot (Block 28, Lot 57):* This parking lot is located at a key “gateway” juncture of the downtown (as per the above). Based solely on several site visits, it appears that the lot may be underutilized – at least on weekdays. Parking is obviously important to sustaining a healthy downtown; however, this is also a key property within the aforementioned “gateway” area. Flood plain regulations would likely prohibit redevelopment, but there may be some potential to create a park space here and relocate the parking – or at least further enhance/improve the existing parking lot.
- *Peddie Lake Area (Wells Fargo and First Baptist Church properties):* There may be potential to create additional passive recreation space in the rear of the Wells Fargo building. There may be some long-term potential to redevelop the First Baptist Church site if the owner decides to move.

- *Hightstown Diner property:* To complement the gateway at the north end of the Central Business District, it may be desirable to promote an iconic mixed-use development on the current Hightstown Diner property to create a southern gateway to the Borough. In the long term, there may be some synergy with a possible redevelopment of the post office site (if the branch is closed or moved).

V. Conclusion

The overall strategy described in this paper is intended to help the Borough implement a “big move” project at the Rug Mill site that makes Hightstown a regional destination and creates quality of life improvements for its current residents. In order to revive the Rug Mill project, a strong public/private partnership and a thorough reexamination of the existing plan will be necessary. Short-term progress on the Rug Mill will help position the Borough of Hightstown as a desirable community to accommodate the expected demand from young households and empty nesters and lay the groundwork for additional improvements in the downtown.